

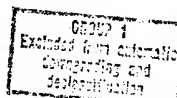
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Division: International
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SURVEY OF THE PANAMANIAN ECONOMY

(ORR Project No. 47.4979)

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I. General

A. Economy

Panama's Gross Domestic Product (GDP) has grown at an average annual rate of 8 percent since 1960, one of the highest rates in Latin America. (See Table 1.) Moreover, this expansion has not been accompanied by inflation. The poorest year for the economy was 1964 when GDP rose by only 5 percent. This slowdown, which was precipitated by a loss of business confidence following the outbreak of riots in January of that year, was short-lived. In 1965 GDP grew 8 percent to about \$615 million, yielding a per capita GDP of somewhat more than \$500 -- considerably higher than the average of less than \$300 for the five neighboring countries of Central America. The economy probably expanded at approximately the same rate in 1966.

Panama is, nonetheless, still in the early stages of development, and living standards remain low for the bulk of the population. The higher income groups, in contrast to those in many Latin American countries, have reinvested a large portion of their earnings in the economy. Gross domestic investment by the private sector, averaging 14 percent of GDP, has been a major determinant of the economy's growth. In the public sector, investment has averaged an additional 5 percent of GDP, representing a total investment since 1960 of \$141 million in such public development projects as roads, housing,

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Table 1

Panama: Gross Domestic Product at Market Prices, by Economic Sector
1960-65

| | Million of U.S. \$, 1960 Prices | | | | | Average annual rate of growth, 1961-65, percent | |
|---|---------------------------------|-------|-------|-------|-------|--|------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 ^a | |
| Total | 418.0 | 459.0 | 498.2 | 541.7 | 568.8 | 614.8 | 8.0 |
| Agriculture, forestry, and fishing | 95.7 | 103.9 | 102.5 | 109.0 | 116.0 | 126.3 | 5.7 |
| Mines and quarries | 1.1 | 1.2 | 1.5 | 1.8 | 1.8 | 1.9 | 11.5 |
| Industrial manufacturing | 54.5 | 63.0 | 77.3 | 86.6 | 91.5 | 97.7 | 12.4 |
| Construction | 22.9 | 26.4 | 27.2 | 30.4 | 28.1 | 32.7 | 7.4 |
| Electricity, gas, water and sewerage | 8.4 | 9.2 | 10.0 | 11.1 | 12.0 | 14.6 | 11.7 |
| Transport, storage and communications b/ | 21.5 | 25.2 | 28.2 | 30.8 | 32.8 | 36.1 | 10.9 |
| Wholesale and retail trade | 57.9 | 63.6 | 71.5 | 77.4 | 82.6 | 89.2 | 9.0 |
| Banking, insurance, real estate and other financial establishments | 10.3 | 11.1 | 12.1 | 14.7 | 15.6 | 17.0 | 10.5 |
| Housing | 34.5 | 36.3 | 37.3 | 39.7 | 39.8 | 42.4 | 4.2 |
| Public administration | 11.4 | 11.7 | 12.9 | 14.7 | 14.1 | 14.2 | 4.5 |
| Public and private services | 69.4 | 73.9 | 78.1 | 82.8 | 87.2 | 89.2 | 5.1 |
| Services to the Canal Zone c/ | 30.4 | 33.5 | 39.6 | 42.7 | 47.3 | 53.5 | 12.0 |

- a. Preliminary figures.
b. Includes product originating in Colon Free Zone.
c. Refers to wages and salaries.

public buildings, and water and sewerage. Foreign loans and grants have been a significant source of these funds, supplying 38 percent of the total.

A rising level of foreign exchange earnings also has been a major stimulus to economic growth. Total exports (including commodity exports and net earnings from the sale of services) increased from \$77 million in 1960 to \$175 million in 1965, an increase of 128 percent. A sharp rise in earnings from the sale of services to the Canal Zone, the doubling of banana exports, and the initiation of exports of refined petroleum accounted for most of these gains. This increase in exports has permitted commodity imports to increase from \$109 million in 1960 to \$188 million in 1965.

In terms of individual sectors, the most rapid growth was registered by industry, mining, and construction which increased 11 percent annually. By 1965 these activities constituted more than one-fifth of GDP and employed 8 percent of the labor force. Services, which are based directly or indirectly on the country's function as an international transit point and entrepot, expanded at an annual rate of 8 percent. Service activities (including services sold to the Canal Zone) constitute the largest component of the economy, accounting for three-fifths of GDP and 30 percent of the labor force. The importance of the Canal Zone to the Panamanian economy is reflected in the estimate that about 40 percent of total GDP is derived either directly or indirectly from Canal Zone activities. Agriculture, which accounts for 20

percent of GDP but employs almost half the labor force, showed a growth rate of nearly 6 percent per year during the period, resulting mainly from increased plantings on commercial farms.

Most of Panama's small industrial base is directed to the domestic market for processed foodstuffs, soft consumer goods, and construction materials and enjoys a high degree of protection from foreign competition. Panama's single oil refinery is the only export-oriented industry. Modern industrial plants are concentrated in Panama City and Colon. Away from these centers there is a proliferation of cottage industries (about 15,000 in 1960) producing foods, beverages, and clothing.

Agriculture, with the exception of a small number of large farms producing foodstuffs for the urban market and bananas, coffee, and sugar for export, is largely isolated from the commercial life of the country. Some 70 percent of agricultural producers in Panama are only marginally involved in the money economy. These farmers follow traditional agricultural practices which have not been influenced by technological advances. The lack of transportation, storage, and credit facilities all have contributed to the low level of agricultural productivity, and uncertain land tenure offers little incentive for change. According to the 1961 census, 90 percent of all farms were held without clear title.

Efforts by the Robles government to raise the level of agricultural productivity have moved slowly. Its program of price incentives for several basic food crops has met with some success as have its efforts to increase the production of traditional agricultural exports. Progress in establishing land tenure, effecting technological improvements, and building farm to market roads, however, has been disappointing. Budgetary expenditures for these programs generally have been small, and the shortage of experienced personnel and the lack of coordinated planning have limited their effectiveness. These factors also have limited the development of less traditional fields such as forestry, fishing, and livestock.

Despite the economic growth that Panama has experienced, urban problems of unemployment and housing have worsened. Unemployment among nonagricultural workers increased from 15 percent in 1960 to 24 percent in 1964 as population growth and the influx of unskilled young people from rural areas sharply expanded the nonagricultural labor force. During 1960-64, the nonagricultural labor force grew at an average annual rate of 3.8 percent whereas nonagricultural employment increased only 1 percent annually. The high level of unemployment prevailing in 1964 probably did not improve in 1965 and 1966. Population growth

and migration to urban areas also have been responsible for the worsening of the housing situation in Panama City and Colon where between 40 and 50 percent of the inhabitants live in slum conditions. The present housing shortage is estimated at a minimum 47,000 units and it is increasing at a rate of 4,000 annually.

Panama's dependence on borrowing for financing a major portion of its public investment program has resulted in an outstanding public debt of \$154 million at the end of 1965 and a debt servicing requirement that absorbed 14 percent of ordinary budget expenditures in that year. Of the outstanding debt, more than 50 percent is owed to foreign creditors -- the US government, international lending agencies, and private bondholders. The share of public investment programs financed by foreign sources possibly will increase to as much as 70 percent of total public investment in 1967 and 1968. International lending organizations have expressed concern over the increasing burden of public debt, but rising tax revenues resulting from new legislation and improved collection should offset to some extent the relative burden of the growing debt.

Panama's ability to sustain its present rate of economic growth depends to a large extent on the degree to which it can finance an increasingly high level of imports. Net earnings on goods and services to the Canal Zone offset over 85 percent of the deficits incurred in trade

with the rest of the world in 1965. These deficits, however, are increasing

at a considerably faster rate than are earnings from the Canal Zone. Increases

in the flow of foreign capital to balance the deficit on goods and services

are expected during 1967-68, but growing debt service requirements will

limit net receipts on capital account. The need to increase foreign

exchange earnings through an expansion and diversification of exports

of goods and services is even more imperative in the long-term because

of the impending construction of a sea-level canal. A sharp reduction

in foreign exchange earnings, and its attendant dislocations throughout

the economy, will occur in varying degrees under all the plans being

contemplated.

B. Human Resources

1. Population

Panama's population at the end of 1965 is estimated at 1.2 million, twice that of 1940. During 1951-65, the population grew at the average annual rate of 2.9 percent. At this rate, the population will be 1.4 million in 1970, 1.7 million in 1975, and 1.9 million in 1980. Life expectancy is 62 years in Panama compared with 46 years in Colombia and 60 in Costa Rica. Infant mortality is high but is considerably lower than in neighboring Central American countries. The ethnic composition of the population for 1965 is estimated as follows: 70 percent mixed Indian, Negro, and white, 14 percent Negro, 9 percent white, 6 percent Indian, and 1 percent Asian and other.

The death rate in Panama, which is estimated at 7 per 1,000, is low and is attributable to the extreme youth of the population. In mid-1966, more than 40 percent of the population was below the age of 15, whereas 13 percent of the population was age 60 or older. The proportion of the population 15 years and younger has been growing because of a sharp decrease in infant mortality. The number of infant deaths per 1,000 live births dropped from 57 in 1960 to 44 in 1965.

Panama's population density, which is 44 persons per square mile, is above that of Nicaragua but is below that of most Central American countries. Distribution of the population, however, is uneven. Panama City, with 331,500 inhabitants, and Colon, with 63,500 inhabitants, accounted for almost one-third of the total population in 1965. Most of Panama east of the Canal Zone, including eastern Panama and Darien Province, and nearly all the northern coast west of the Zone (Bocas del Toro Province) have small populations and remain virgin tropical forest. The rural population is concentrated in the settled agricultural regions of the south and west (Chiriqui, Veraguas, and Cocle Provinces). The distribution of the population by province in 1965 and projections to 1970 are shown _____ in Table 2 and Figure 2.

The population of Panama City and Colon has been growing at an average annual rate in excess of 4 percent because of the migration of unskilled peasants from rural areas. This population movement has contributed to growing urban unemployment and has exacerbated the urban housing problem. (Table 3) The following tabulation/shows the urban-rural distribution of the population and rates of increase for selected years 1930-60.

Table 2

Panama: Population Estimates by Province,
1965 and 1970

(Thousand)

| <u>Province</u> | <u>1965</u> | | <u>1970</u> | | <u>Average annual increase %</u> |
|-------------------|---------------|-----------------------------|---------------|-----------------------------|--------------------------------------|
| | <u>Number</u> | <u>Percent of total</u> | <u>Number</u> | <u>Percent of total</u> | |
| Bocas del Toro | 37.5 | 3.0 | 42.9 | 3.0 | 2.7 |
| Cocle | 106.5 | 8.7 | 119.5 | 8.4 | 2.3 |
| Colon | 113.7 | 9.1 | 121.4 | 8.5 | 1.4 |
| Chiriqui | 218.5 | 17.6 | 249.7 | 17.5 | 2.7 |
| Darien | 22.2 | 1.8 | 24.5 | 1.7 | 2.0 |
| Herrera | 69.4 | 5.6 | 76.6 | 5.4 | 2.0 |
| Los Santos | 77.0 | 6.2 | 82.2 | 5.8 | 1.3 |
| Panama | 451.4 | 36.3 | 550.3 | 38.5 | 4.1 |
| Veraguas | 147.6 | 11.9 | 161.8 | 11.3 | 1.9 |
| Total | 1,243.9 | 100.0 | 1,428.8 | 100.0 | 2.8 |
| Panama City | 331.5 | 26.6 | 402.2 | 28.1 | 4.1 |
| Colon City | 63.5 | 5.1 | 67.0 | 4.7 | 1.1 |

Table 3

Panama: Urban-Rural Distribution of Population, Selected Years
1930-60

| | Rural | | Urban | |
|------|----------------|------------------------------------|----------------|------------------------------------|
| | <u>% total</u> | <u>Average annual increase</u> | <u>% total</u> | <u>Average annual increase</u> |
| 1930 | 69.9 | -- | 30.1 | -- |
| 1940 | 66.2 | 2.2 | 33.8 | 4.0 |
| 1950 | 64.0 | 2.1 | 36.0 | 3.2 |
| 1960 | 58.0 | 2.0 | 42.0 | 4.3 |

2. Education

As a result of the emphasis placed on education, particularly in the past ten years, Panama enjoys one of the highest literacy rates in Central America. According to the 1960 census, 78 percent of the total population ten years or older has received some formal instruction and is considered literate. Elementary school education was completed by 60 percent of the population, high school by 16 percent, and 2 percent completed university studies. In Panama and Colon in 1960 the literacy rate was 92 and 91 percent respectively, whereas the rate in the rural provinces averaged only 69 percent.

The government of Panama in recent years has devoted a significant portion of its resources to the development of educational facilities. Planned expenditures on education in 1965 amounted to \$21.2 million, 24 percent of the government's planned ordinary budget. These expenditures represent an increase of 55 percent over expenditures in 1960.

Total school enrollment during the past ten years has increased 4.8 percent per year and, since 1958, 5.6 percent. University and high school enrollments have increased at a faster rate than enrollment in other types of schools and in 1964 represented 22 percent of total students compared to 15 percent in 1954. Table 4 shows school enrollments during 1954-64.

University enrollment has nearly trebled since 1954, totalling nearly 6,000 in 1964. Approximately one-third of university students were enrolled in 1964 in philosophy as compared to 40 percent in 1960. Two other principal fields of study are public administration and commerce, accounting for 24 percent of enrollment, and natural sciences, accounting for 22 percent. Less than 2 percent of enrollments are in medicine. Graduates from the university numbered 316 in 1965, an increase of 42 percent over 1960.

Enrollment in elementary schools in 1964 totalled 196,000. About 40 percent of this enrollment is in urban schools and 60 percent in rural schools. High school enrollments in 1964 totalled 51,000, more than double the enrollment in 1954. In 1963, 70 percent of elementary school graduates entered high school as compared to 49 percent in 1954.

Table 4

Panama: School Enrollments, Selected Years
1954-64

| <u>School</u> | <u>Thousand students</u> | | | | | |
|---------------|--------------------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1954</u> | <u>1956</u> | <u>1958</u> | <u>1960</u> | <u>1962</u> | <u>1964</u> |
| Kindergarden | 3.1 | 3.3 | 3.0 | 3.3 | 3.5 | 4.3 |
| Elementary | 132.7 | 141.3 | 145.6 | 161.8 | 179.8 | 196.4 |
| High School | 23.2 | 27.4 | 33.3 | 39.0 | 44.7 | 51.0 |
| University | 2.0 | 2.3 | 3.0 | 3.7 | 4.4 | 5.7 |
| Nursing | .08 | .10 | .09 | .12 | .18 | .17 |
| Special a/ | .15 | .20 | .24 | .29 | .32 | .37 |
| Other b/ | <u>2.2</u> | <u>2.9</u> | <u>2.8</u> | <u>3.1</u> | <u>3.4</u> | <u>3.2</u> |
| Total | 163.4 | 177.6 | 188.0 | 211.2 | 236.3 | 261.2 |

a. For mental or physical defectives.

b. Specialized vocational training.

3. Employment

Panama's labor force in 1964 was estimated at 378,000 -- 33 percent of the total population and 49 percent of the working age population 10 years and older. Of the total labor force, 186,000 persons, or 49 percent, are classified as agricultural (including forestry and fishing), and 192,000 persons, or 51 percent, are classified as nonagricultural.

During the four year period 1960-64, the total labor force grew 2.9 percent a year. The movement of peasants to urban areas during this period, however, resulted in the agricultural labor force growing by 1.9 percent annually, whereas the nonagricultural labor force grew 3.8 percent annually. A comparison of the agricultural and nonagricultural labor force in 1960 and 1964 is shown in the following tabulation in thousands of persons.

| | <u>1960</u> | <u>1964</u> |
|-------------------|-------------|-------------|
| Total labor force | <u>337</u> | <u>378</u> |
| Agriculture | 172 | 186 |
| Nonagriculture | 165 | 192 |

About 20 percent of the agricultural labor force is employed full time on large plantations. The largest employers are the Chiriqui Land Company (10,000 employees) and the Citricos de Chiriqui (Chiriqui Citrus Fruit Company -- about 5,000 employees). The remainder of the agricultural labor force consists largely of peasants subject to disguised

unemployment. These peasants eke out a bare existence on small plots, supplementing their meager incomes when possible by seasonal work on plantations.

Employment in nonagricultural sectors in 1964 was estimated at 146,000, an increase of only 4.3 percent over that of 1960. This increase represents an annual growth in employment of only 1 percent whereas the total nonagricultural labor force was increasing at a rate of 3.8 percent annually. Unemployment among nonagricultural workers, consequently, increased from 15 percent in 1960 to 24 percent in 1964. There are no official estimates of employment or unemployment for 1965 and 1966, but, even under the most favorable assumptions, nonagricultural unemployment probably was at least 24 percent in both years.

The largest employers of nonagricultural workers are the Panamanian government, with more than 30,000 employees, and the Canal Zone, with 18,000 employees. *

The other principal sources of employment are listed in Table 5. By sector, the most important sources of employment for nonagricultural workers are services (40 percent), commerce (19 percent), and manufacturing (16 percent). The distribution of nonagricultural labor force by type of activity in 1960, 1963, and 1964 is shown in Table 6.

*Full time employees only.

Short-term prospects for more productive employment of agricultural workers and for reducing the unemployment rate of nonagricultural workers are not bright. Banana and citrus plantations currently are undergoing some expansion but will absorb only a small part of the annual increment to the agricultural labor force. Agrarian programs to increase the productivity of small farmers have moved slowly. Even if these programs are accelerated, only marginal improvements can be expected in the short-term and the flow of unskilled peasants to urban areas probably will continue unabated. The rapid growth of the nonagricultural labor force and the low level of skills that prevail will make efforts to reduce unemployment extremely difficult. A continuation of present high investment levels and economic growth are unlikely to ease unemployment unless labor intensive public works projects are greatly expanded.

Table 5

Panama: Principal Sources of Nonagricultural Employment
1963

Firms Employing 600-1,000 Employees

Cerveceria Nacional (brewery)
Cia. Panama de Fuerza y Luz (electric power)
Azucarera La Estrella (sugar refinery)

Firms Employing 400-600 Employers

La Biskayna, S.A. (retail food sales)
Hotel El Panama Hilton
Cemento Panama (cement)

Firms Employing 200-400 Employees

Refineria Panama (oil refinery)
Terminales Panama (truck transport)
Chase Manhattan Bank
First National City Bank
Hotel Continental
Constructora Martinez (construction)
Panama Agencies Company (ship transport)
Abattoir Nacional, S.A. (meat packing)
Cia. Panameña de Alimentos (retail food sales)
Sears, Roebuck, and Co.
Pan American World Airways
Almacenes Romero, S.A. (importer)
Tagaropulos, S.A. (retail food sales)
Clayco, S.A. (retail sales)
Cia. Panameña de Aceites, S.A. (edible oil refining)
Editora El Panama America, S.A. (printing)
Azucarera Nacional, S.A. (sugar refinery)
George F. Novey (retail hardware sales)

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Table 6

Panama: Distribution of the Nonagricultural Labor
Force by Type of Activity
1960 and 1964

| <u>Activity</u> | <u>1960</u> | <u>1964</u> |
|--------------------------------------|-------------|-------------|
| Manufacturing | 21 | 23 |
| Construction | 7 | 8 |
| Public utilities | 2 | 2 |
| Commerce | 28 | 28 |
| Transportation and communications | 8 | 7 |
| Services | 56 | 59 |
| Canal Zone | 16 | 18 |
| Other | <u>2</u> | <u>1</u> |
| Total employed labor force | 140 | 146 |
| Unemployed <u>a/</u> | <u>25</u> | <u>46</u> |
| Total nonagricultural labor force | 165 | 192 |

a. Includes part time workers and unpaid
family members.

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C. Urban and Rural Welfare Problems

1. Housing

The task of meeting the housing requirements of the nation is one of the most urgent problems facing the Panamanian government. Construction of new housing between 1950 and 1960 totalled only 38,000 units. The present housing shortage is estimated at 47,000 units and is increasing at a rate of nearly 4,000 annually. Moreover, of the 211,000 houses in Panama in 1960, fully 130,000, or 62 percent, were considered to be below minimum standards. To alleviate Panama's housing problems by 1980, it has been estimated that 10,000 units a year must be constructed.

The quality of existing housing is illustrated by the fact that in 1960 less than half of all dwellings had electricity (in rural areas only 10 percent are served by electricity) and less than 40 percent of all dwellings had sanitation facilities. Overcrowding also is prevalent throughout the country. Half of all houses are one-room dwellings, housing about one-third of the population, and 25 percent are two-room dwellings. Overcrowding is particularly severe in urban areas where some 50 percent of the families live in one-room. More than half of these families are comprised of six or more members.*

* In Panama City, 42,500 people live in 29 slum areas called "barriadas," and another 100,000 live in tenements built as temporary housing more than fifty years ago during the construction of the Canal. The slum areas range in size from 25 to more than 1,200 make-shift shacks. These slum areas lack adequate roads, sewers, water, lights, bathing and washing facilities, vermin control, refuse disposal, and community services such as schools, clinics, and fire and police protection.

The government established a Housing and Urbanization Institute (IVU) in 1958 to provide low-cost urban housing and complementary facilities. Foreign loans are by far the most important source of funds for its activities. By 1961 IVU had constructed only 666 housing units but, following a reorganization in that year, it received an Inter-American Development Bank (IDB) loan of \$7.6 million to construct 3,000 units. IVU will have constructed a total of approximately 5,000 housing units in urban areas and 600 in rural areas by the end of 1966. In addition, it has distributed 6,000 housing lots, extended loans to more than 1,000 persons, helped establish private housing cooperatives, and assisted urban planners in 36 urban areas.

IVU was again reorganized in 1966, to improve its tarnished image, and in that year it received a second IDB loan for the construction of 6,000 housing units by 1968. The IDB loan of \$9 million was supplemented by a government contribution of \$3 million. Additionally, in 1966 IVU received an AID loan of \$3 million for the construction of 4,000 new "core houses" in suburban resettlement areas, and a loan of \$4 million is currently being negotiated for the construction of 3,000 new housing units by private groups under contract with AID.

Table 7 gives the schedule of new housing construction in 1967-68 based on available financing and an estimate of construction levels in 1972.

Table 7

Panama: Housing Construction, Average 1965-66, Planned 1967-68 and Estimated 1972

| | <u>Average 1965-66</u> | <u>1967</u> | <u>1968</u> | <u>1972</u> |
|---------|------------------------|-------------|-------------|-------------|
| IVU | 1,000 | 2,500 | 3,000 | 5,000 |
| Private | 2,000 | 2,100 | 2,200 | 5,000 |
| Other | -- | 450 | 1,150 | n.a. |
| Total | 3,000 | 5,050 | 6,350 | 10,000 |

The Panamanian government has tried to stimulate private housing construction through several financial institutions. In general, however, the effectiveness of these institutions has been limited because they have provided only short-term loans, which do not cover the full cost of construction, at high interest rates. The Institute of Insured Mortgages was organized in 1963 to charter Savings and Loan Associations. It offers supervision of the associations, insurance on savings accounts and mortgages, and provides the associations with their initial capital. The organization of Savings and Loan Associations under this Institute has been slow (three have been chartered and two more are scheduled to be chartered by 1968) and most loans have been aimed at middle-class housing. The other principal financial institute is the Housing Mortgage Bank (Caja de Ahorros), established in 1962 with an AID loan of

\$2.5 million, for long-term mortgages for medium-cost housing. By the end of 1966, the Housing Mortgage Bank will have financed the construction of 618 homes.

2. Health

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The general level of health in Panama compares favorably with the rest of Latin America. Improvement in health standards has increased life expectancy from 51 years in 1941 to about 62 years in 1952 (the most recent estimate). The crude mortality rate has dropped from 13.0 per 1,000 inhabitants in 1943 to 7.2 in 1965. Similarly, the infant mortality rate has been reduced from 72 per 1,000 live births in 1943 to only 44 in 1965.

Communicable diseases largely have been controlled or eliminated. Yellow fever and dengue have been eradicated, and malaria is only occasionally encountered due to extensive public health efforts. Tuberculosis, however, remains a serious health problem. Moreover, an inadequate diet and insufficient provision of sanitary facilities contribute to a high incidence of dietary deficiency diseases and to enteric diseases such as dysentery. Standards of medical care generally reflect the country's underdeveloped state and large sectors of the population, particularly in rural areas, have little access to professional medical care.

The most important government agency active in promoting public health is the Social Security Institute which operates several hospitals and offers subsidized medical, dental, and maternity care for nearly 100,000 persons covered by the social security system. Foreign assistance also has contributed to improvements in Panama's public health services. The

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United Nations has conducted programs to control malaria, tuberculosis, and leprosy, and has donated supplies and equipment to Panamanian medical institutions. Foreign loans are presently being negotiated for the construction of potable water systems in rural areas (\$1.4 million), additional malaria control (\$1.4 million), a new hospital in Aguadulce (\$3.0 million), and expansion of the mobile health units (\$0.9 million).

a. Nutrition

The diet of the average Panamanian is less than adequate. The average caloric intake, which is estimated at about 2,300 per day, is below the average for Latin America and is only three-fourths of the minimum caloric intake recommended for tropical climates. The diet of most of the population is composed primarily of starchy foods, including rice, corn, and beans; protein consumption is extremely low. Dietary deficiency diseases such as rickets and pellagra are common, particularly among the rural population and the urban unemployed.

Approximately 25 percent of the populace, mostly school age children, receive food under the PL 480 program which is administered by two voluntary agencies, CARE and the Catholic Relief Service (CRS). Planned shipments of food under this program will amount to \$874,000 in fiscal year 1967. In addition, a Panamanian committee has recently been

established to promote production and distribution of Incaparina, a low-cost, high-protein food supplement.

b. Sanitation

Water supply and sewage disposal facilities are generally adequate in urban areas (outside slums) but are inadequate or nonexistent in most rural areas. In 1960, 94 percent of urban dwellings were supplied with water and 77 percent were connected to public sewage systems. In rural areas, however, more than 70 percent of the population is dependent on rivers, shallow wells, and other unprotected sources for its water supplies and there is little provision for sewage disposal. The inadequacy of sanitary facilities in urban slums and rural areas is responsible for a high incidence of enteric diseases such as dysentery and intestinal parasitism.

The National Water Supply and Sewage Institution (IDAA), an autonomous government agency, is responsible for operating and expanding water and sewage systems. During the six year period 1960-65, the Panamanian government has spent \$13.2 million in improvement and expansion programs, financed mainly with foreign aid. Additional foreign loans amounting to about \$10 million are expected in the near future to improve service in Colon, Panama City, and a number of towns in the interior.

c. Medical Care

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The availability of medical facilities and personnel in Panama is substandard. In 1965 there were only 17 hospitals, 12 clinics, and 44 health centers with an aggregate capacity of 2,560 beds. In the same year, there were 535 practicing physicians, or one physician per 2,325 inhabitants--well below the Latin American average of 1 to 1,600. Other medical personnel include 830 nurses (1964), 102 dentists (1962), and about 1,300 nurses aides (1962). Both medical facilities and personnel are concentrated in urban areas. Much of the rural portion of the country has no access to professional medical care although since 1962 attempts have been made to reach it by means of mobile public health units financed by US/AID funds.

In 1965 the country's only medical school (located at the University of Panama) graduated 23 new physicians. The school was established in 1951 and, beginning with the first graduating class in 1955, the number of medical graduates has averaged 16 per year.

The Department of Public Health under the Ministry of Labor, Social Welfare, and Public Health is responsible for the organization and planning of Panama's health program. Programs of the department include preventive medicine, communicable disease control, health education, maternal and child welfare, sanitary engineering, and rural public health.

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In 1962, a national health plan was established for the

development of public health facilities. The objective of the plan is the establishment of three regional hospitals, each with a subsidiary network of health centers supported in turn by small rural clinics. The plan envisages serving 70 to 80 percent of the population by 1970. Hospital construction has been delayed pending foreign assistance, but eight health centers have been established.

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D. Development Programs

A total of \$141 million was invested in public development projects in Panama during the years 1960-65. These projects covered a wide range of public facilities including roads, housing, public buildings, and water and sewerage. It was not until 1963 that individual projects were pulled together in a comprehensive public investment program. Included in this program is the so-called Robles Plan which provides for land reform and the development of public facilities in rural areas. The relationship of the annual level of public investment expenditures to GDP is shown in the following tabulation.

| <u>Year</u> | <u>Percent of GDP</u> |
|-------------|-----------------------|
| 1960 | 2.9 |
| 1961 | 5.0 |
| 1962 | 5.4 |
| 1963 | 5.4 |
| 1964 | 4.9 |
| 1965 | 5.1 |

All expenditures under the program are channeled through the three principal levels of government: the central government, which during the years 1960-65 accounted for 55 percent of total public investment expenditures; some 20 autonomous government agencies, which

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accounted for 43 percent; and the municipal governments, which accounted for 2 percent.

Public investment programs are financed from a wide variety of sources including the current account surplus of the public sector, internal floating and funded debt, and loans and grants from external sources. The approximate distribution of sources of financing for the years 1960-65 is as follows: current account surplus of the public sector, 41 percent; net increase in external debt, 38 percent; and net increase in internal floating and funded debt, 21 percent. The total financing exceeded investment expenditures slightly during the period, partly because some of the financing was used for non-investment purposes. Funds from internal sources are apportioned by the government in accordance with its own priorities but those obtained from US/AID and the international lending agencies normally are earmarked for specific development projects that have been reviewed in detail by the lenders.

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1. Overall Public Investment Expenditures

During the years 1960-65, expenditures on roads and other transportation facilities were the most important category of public investment, accounting for 31 percent of the total. Other important categories were housing (19 percent), public buildings (11 percent), water and sewerage (9 percent), and education, health, and social welfare facilities (6 percent). Public investment expenditures on agriculture and land reform amounted to only \$2 million during the period. The structure of total public investment expenditures for the years 1960-65 is shown in Table 8.

Of the 20 autonomous government agencies engaged in carrying out public investment under the program, five are the most important: the Social Security Institute (CSS), the Housing and Urbanization Institute (IVU), the Economic Development Institute (IFE), the Hydraulic and Electrification Institute (IRHE), and the National Water Supply and Sewerage Institute (IDAAN). Most of the investments of the CSS have been devoted to construction and expansion of hospitals and other public health facilities. The IVU is engaged primarily in the construction of low cost housing and, from 1958 when it was founded to the end of 1966, it will have constructed nearly

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Table 8

Panama: Structure of Investment Expenditures by the Public Sector
1960-65

| | Millions US Dollars | | | | | | |
|--|---------------------|-------------|-------------|-------------|-------------|-------------|-------------------------------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | Cumulative Totals <u>1960-65</u> |
| Roads and transportation facilities | 5.4 | 8.2 | 4.5 | 10.0 | 8.6 | 6.5 | 43.2 |
| Public buildings | 1.1 | 2.0 | 3.3 | 2.8 | 1.9 | 3.9 | 15.0 |
| Housing | 1.6 | 4.3 | 5.6 | 6.3 | 7.4 | 2.1 | 27.3 |
| Education, health, and social welfare | 1.3 | 1.8 | 2.1 | 0.9 | 1.3 | 1.2 | 8.6 |
| Public city works and sanitation | 0.4 | 2.3 | 1.9 | 3.3 | 1.4 | 1.0 | 10.3 |
| Water and sewerage | none | none | 5.2 | 2.0 | 2.4 | 3.6 | 13.2 |
| Electric power | none | 1.0 | 0.6 | 1.5 | 1.8 | 1.6 | 6.5 |
| Machinery and equipment | 0.6 | 1.2 | 1.1 | 0.4 | 1.0 | 0.4 | 4.7 |
| Agriculture and land reform | 0.8 | 0.2 | 0.1 | 0.5 | 0.2 | 0.2 | 2.0 |
| Other (undistributed) | 0.2 | 0.3 | 0.6 | none | 0.1 | 8.9 | 10.1 |
| Total investment expenditures of the public sector | <u>11.4</u> | <u>21.3</u> | <u>25.0</u> | <u>27.1</u> | <u>26.1</u> | <u>29.4</u> | <u>140.2</u> |

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5,000 urban and 600 rural dwelling units. The IVU also has purchased a number of house lots in urban areas which it has distributed gratis to the poor. In the future, the IVU plans to attain a level of housing construction sufficient to house 5,000 families per year, principally in urban areas.

The IFE is engaged primarily in granting loans to low income farmers for purchase of equipment, fertilizer, seed, and livestock and makes few direct investments. The IRHE operates much of the electric power facilities outside the main urban areas, distributing electric power to some 92 communities. It has constructed several new power installations and additional installations in La Yeguada, Las Minas Bay, and Bayano are under construction or planned. IDAAN is engaged in construction of urban water and sewerage systems, primarily in Panama City, but about half of its expenditures since 1960 have been in small towns. In preparation is a facilities for \$10 million project to expand water supply in Panama City, construction of which is to begin in 1968.

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2. US/AID Projects

The US government has long provided considerable economic assistance to Panama. Such assistance during the period 1952-65 under AID and its predecessor agencies totalled \$32 million in grants and \$38 million in loans. As of November 1965, an undisbursed backlog of \$19 million in AID obligations remained outstanding. Annual disbursements during 1963-65 have ranged from \$6 million to \$8 million. Since the launching of the government's comprehensive development program, the emphasis of AID has shifted from grants to loans for individual developmental projects in direct support of the overall program.

Projects now in progress under AID funds include (a) technical assistance to agriculture, industry, and urban development, (b) loans for construction of schools, roads, and dwellings, and for expansion of water supplies and sewers in Panama City and Colon, and (c) a loan to establish a new private Panamanian bank to grant medium- and long-term loans to industrial enterprises.

Following new instances of political unrest in Panama City and Colon in the spring of 1966, an agreement for a new loan of \$3 million for urban improvement was signed in July and a special US mission headed by

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former Ambassador Philip Klutznick went to Panama in August to investigate living conditions in urban slums. The outgrowth of this mission was a US proposal for a new loan of \$13.5 million and a grant of \$4.4 million for urban improvement with special emphasis on "urban modernization, social welfare, and employment creation." These funds would be used to improve urban streets/ and for water and sewerage and/ community development, particularly in slum areas of Panama City, beginning in December 1966.

3. Projects of the International Lending Agencies

The IBRD and the IDB also have contributed assistance to Panama in the form of long-term loans for specific development projects, primarily of a self-liquidating nature. These loans have been made for a wide variety of types of projects, including construction of housing, electric power facilities, and roads, for and/ the establishment of the IFE. In 1966, the IDB granted a loan of \$9 million for construction of low cost housing and one of \$0.7 million for educational scholarships. The IDB also has under consideration loans of \$4 million for construction of farm-to-market roads and another of \$3.5 million for the import of livestock. The IBRD/ also is currently considering several projects for construction of roads but no estimates of the amounts of these projects have yet been announced.

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E. Role of the Canal Zone in the Panamanian Economy

The importance of the Canal Zone as a source of foreign exchange is discussed in Section VII B. and to the extent possible, will not be included in this section.* For an exhaustive analysis of the entire question of the historical role of the Canal as well as the impact of a sea-level canal on the economy of Panama, the reader is directed to the Stanford Research Institute study entitled "Impact of a Sea-Level Canal on the Economy of Panama", SRI Project 5383, July 1965 -- the major source of the summary that follows.

1. Historical Role of the Canal

The proportion of total Panamanian GDP deriving either directly or indirectly from Canal Zone activities is estimated to have ranged between 38 and 42 percent during the period 1960-64. In 1964 the Canal's contribution to total GDP of US \$595 million is estimated at 39 percent or US \$233 million.** Although the Canal Zone has contributed a decreasing share of total employment in recent years, it still employed

* Balance of payments data indicate that Panama's net foreign exchange earnings from relations with the Canal Zone reached \$90 million in 1965; application of the broader concept employed by SRI yields a comparable figure of \$127 million.

** Canal-derived GDP figures represent the sum of the net flow of foreign exchange due to the canal, modified upward by use of the relatively conservative multiplier of 1.58, plus direct income (value added) from the Canal in the form of wages, canal annuities, and so forth.

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20,000* Panamanians in 1964 or more than 5 percent of the total labor force.

As a proportion of the nonagricultural labor force, the Canal Zone represented more than 10 percent of the total. Considering only employment in the metropolitan area, the Canal Zone represented about 13 percent and, for the two districts of Colon and Panama, about 16 percent in 1964. Inasmuch as wages and salaries are relatively high in the Zone, this portion of employment is of greater importance to the Panamanian economy than the numbers alone would suggest. Moreover, these employment figures relate only to workers actually employed in the Canal Zone and do not take into consideration the important segment of other employment directly related to the canal or the segment of employment in Panama which is indirectly supported by canal activities.

2. Impact of a Sea-Level Canal

It has been estimated that, during the period of construction, conversion of the Panama Canal at its present site into a sea-level canal would result in an increase in GDP of about US \$147 million annually. Construction at another site in Panama would generate an estimated increase in GDP of US \$68 million. Construction of a canal outside of Panama, on the other hand, would depress GDP somewhat, mainly because of smaller

* Possibly includes 2,000 part time employees.

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expenditures for capital improvement and maintenance on the present canal in anticipation of shifting operations to the new canal.

The impact on employment levels during the construction period would be particularly dramatic in the case of canal conversion at its present site. It is estimated that during the peak year, 46,000 Panamanians would be employed in the actual construction and an additional 70,000 jobs would be generated elsewhere in the economy. Construction of a sea-level ^{elsewhere} canal/in Panama, using nuclear explosives for high volume excavation work, would create much less employment -- an estimated 9,000 Panamanian in construction and 22,000 in new jobs elsewhere in the economy during the peak construction year. Construction outside Panama would depress canal employment during the construction period because of the lower level of capital improvement and maintenance.

The existence of large pools of unemployment and underemployment suggests that ample manpower is available for construction of a sea-level canal in Panama. Long-term government planning is necessary, however, if inflationary pressures accompanying the expansion of spending during the construction period are to be controlled, and if resources are to be developed to cushion the impact of the eventual shift to a sea-level canal.

At the time that operations do shift to a sea-level canal, new and extensive sources of foreign exchange will be required if a serious

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reduction in GDP and employment is to be avoided. It is estimated that the

drop in net foreign exchange earnings from construction period peaks could range between US \$88 million and US \$174 million, depending upon the location of the sea-level canal. (See Table 9). Comparison of GDP in the first operating year of the sea-level canal with GDP in the peak construction year indicate even more clearly the severity of the adjustment required.* It is estimated that the drop in GDP would range from US \$231 million to US \$294 million, assuming that U.S. military activities in Panama are maintained at the 1964 level. Should military activities be terminated with the opening of a sea-level canal, the drop in GDP would be between US \$376 million and US \$462 million. In percentage terms, the decrease in GDP could range between 22 and 39 percent, depending on the route and the military assumption.

The reduction in total employment accompanying a shift to a sea-level canal could range from 94,000 to 192,000, depending on the route and military assumption used, or 20 to 38 percent below peak year employment figures, reflecting approximately the same change as in GDP. Operation of a sea-level canal would require only a fraction of the workers currently employed at the existing canal. Conversion at the present site, for example, would drop Panamanian employment in the Canal Zone from the

* The estimates referred to in these paragraphs indicate drops in income and employment in the first year of operation of the three sea-level canals considered, assuming that the changeover took place in one year. The actual shift probably would occur over a longer period, but the figures illustrate

current level of 20,000 to somewhat over 7,000, if military operations are

continued, and to slightly less than 1,000 assuming a termination of military

operations.

Table 9

Exchange Earnings,
Decrease in Net Foreign/ Gross Domestic Product, and Employment
for Panama, With and Without U.S. Military Activity,
for Three Sea-Level Canal Possibilities
First Year of Operation Relative to Previous Peak Year a/

| Canal Possibility | (Millions of Dollars at Current Market Prices) | | | | | |
|---|--|---------------------|------------------|---------------------|---------------------------|---------------------|
| | Net Foreign Exchange Earnings | | Domestic Product | | Employment (thousands) | |
| | With Military | Without Military | With Military | Without Military | With Military | Without Military |
| Zone Conversion Sea-Level Canal - Present Site (1980 relative to 1977) b/ | | | | | | |
| Amount of decrease | \$110.0 | \$173.7 | \$294.2 | \$461.9 | 140.4 | 192.4 |
| Percent of decrease | 29.5% | 46.6% | 24.0% | 37.7% | 28.3% | 37.8% |
| Sasardi-Morti Sea-Level Canal - New Site in Panama (1976 relative to 1975) | | | | | | |
| Amount of decrease | \$ 87.8 | \$143.6 | \$231.2 | \$375.6 | 93.8 | 143.6 |
| Percent of decrease | 26.9% | 44.0% | 21.6% | 35.1% | 20.3% | 31.1% |
| Altrato-Fruando Sea-Level Canal - Site Outside Panama (1980 relative to 1979) | | | | | | |
| Amount of decrease | \$101.4 | \$167.0 | \$270.8 | \$442.3 | 95.1 | 147.5 |
| Percent of decrease | 30.7% | 50.5% | 24.0% | 39.1% | 21.6% | 33.6% |

a. Peak year estimates include U.S. military activity.

b. 1971 would be actual peak employment year.

II. Agriculture

The 1961 census revealed that 70 percent of agricultural producers in Panama were, at best, only marginally linked to the commercial life of the country. One-half of these farmers did not enter the commercial market and the remaining producers realized sales of less than US \$100 annually. Under the "Plan Robles" increased attention has been directed to the agricultural sector but the implementation of development plans has been slow. Initial efforts have focused mainly on increasing basic food production through price support programs, and have met with some success. Total agricultural production increased to US \$126 million in 1965 but supplementary imports of food also rose to almost US \$19 million, approximately 10 percent of total imports.

The most important export crops are bananas, sugar cane, and coffee (accounting for nearly 50 percent of the total value of registered exports) and the principal crops grown for domestic consumption are corn, beans, rice, and tobacco. With the exception of banana production and practices on a few commercial farms, most of these crops are grown under traditional methods involving a minimum of modern technology. This has made the level of agricultural production and the welfare of the individual farmer highly vulnerable to climatic and other natural changes. Tropical soils, for example, which are quickly robbed of their mineral content, are not replenished by chemical fertilizers and irrigated lands constitute only a small fraction of the total croplands. As the soil is worn out, the

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typical subsistence farmer moves to a new section of land which he clears using slash-and-burn techniques.

The lack of transportation, storage, and credit facilities and uncertain land tenure all have contributed to the perpetuation of these traditional practices. According to the 1961 census, 90 percent of all farms are held without clear title. The titling process initiated by the Agrarian Reform Commission has moved slowly, and has limited the effectiveness of related government programs of financial and technical aid. The completion of the cadastral survey, currently in process and scheduled for completion by the end of 1967, should make it possible for the government to develop more specific plans for agriculture in the future.

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A. Land

The productivity of Panama's arable lands is severely limited both by the quality of the soil and the inaccessibility of large portions of the land. The land tenure system, moreover, is a formidable obstacle to land improvement. Large land owners often leave parts of their land idle while subsistence farmers, most of whom lack clear title to any land, move about practically without restriction and contribute little to the national economy. Commercial farming thus far has achieved but a small foothold in Panamanian agriculture.

1. Topography and Climate

Panama is separated into nearly equal parts by the Canal Zone and is divided longitudinally by two mountain ranges that form the backbone of the Isthmus. (See map, Figure 1.) The San Blas Mountains, the low eastern range which continues into Colombia, are an almost impassable jungle of forests and swamps. The higher western mountain range is an extension of the Costa Rican cordillera. The slopes of this range are covered by dry tropical forests on the Pacific side and by wet tropical forests on the Caribbean side.

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The Caribbean coast is very wet, with some areas receiving more than 150 inches of rain a year, and the average mean temperature is 80° Fahrenheit. Agricultural activity in the Caribbean coastal region is very limited, confined largely to the northern portion of Bocas del Toro Province. The rainfall on the Pacific side of the Isthmus averages less than 70 inches annually. Chiriqui, Herrera, Los Santos, and Coclé Provinces in this region are the main agricultural areas of the country. (See Figure 3)

The rainy season lasts from early May to mid-December.

During this eight month period the relative humidity reaches 80 percent and there are frequent heavy rains. There are only light showers during the four-month dry season and the relative humidity is about 60 percent. Winds from the north-east during the dry season and variable winds during the rainy season moderate the discomfort of high temperatures and high humidity.

2. Soil and Land Use

Approximately one-third of the total land area of 7.4 million hectares is arable. There is a broad strip of rich volcanic soil near the Costa Rican border, but the greatest part of the cultivatable land is relatively infertile. The soil is heavily weathered and leached, moderately acidic, and low in nitrogen and organic material. Erosion is widespread. Most areas farmed are below 240 meters where the soil is commonly red-brown and friable.

Panama _____ has a great reservoir of unutilized land.

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(See Figure 9.)
percent was used as pasturage./ In western Panama the most productive land is in the provinces of Cocle, Herrera, Los Santos, and Chiriqui. All of the sugar and 75 percent of the country's rice, corn, beans, and tobacco are grown in these provinces. Most of Panama's arable land is east of the Canal Zone but only one percent of this area is cultivated. Most of eastern Panama province and all of Darien province are suitable for agricultural expansion but both areas almost totally lack roads or other communications links with the rest of the country. (Figure 4 shows the distribution of cropland^s and improved pastures^s in 1960. There probably has been little significant change in land use since the date of this information.)

Almost 88 percent of the farms in Panama are cultivated without the aid of either mechanical or animal power. Animal power is available on 10 percent of all farms and mechanical power on two percent. Irrigation also is very limited. In 1962, only 14,000 hectares were irrigated and commercial banana plantations accounted for nearly half of this total.

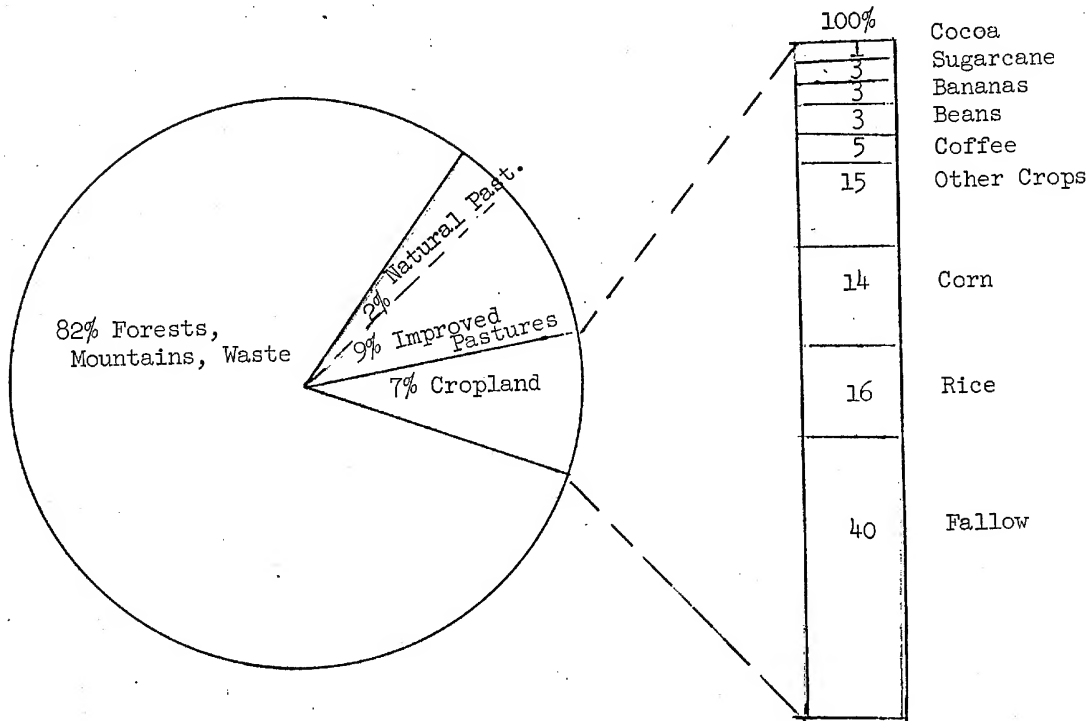
3. Land Ownership

In Panama, the government controls all vacant land and all of the land that belonged to Colombia at the time of independence. As a result, 88 to 90 percent of the total land area is owned by the government. Most of the privately owned land is held in the form of large estates by Panama's leading families. There are relatively few small farmers holding

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Figure 9

Panama: Estimated Land Use, 1961



Total Area: 7.4 million hectares (28,600 sq. mi.)
excluding the Canal Zone

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clear title to the lands they work. Of the 95,000 farms in 1961, only about 10 percent were held under a clear title. More than half of all farm units were occupied by squatters and the remainder of about 40 percent were in intermediate ownership categories but without land titles.

Subsistence farms of less than 10 hectares account for only 12 percent of the 1.8 million hectares in farm units, but they constitute 64 percent of the total number of farm units. Medium sized farms of 10 to 100 hectares account for 46 percent of the land in farms and about one-third of the total number of farms. The remaining 42 percent of the land is encompassed by three percent of the farms. (See Figure 10 .)

B. Production and Distribution

In 1965, agriculture* provided approximately 20 percent of GDP, about 60 percent of total registered exports, 49 percent of employment, and 85 percent of the country's food requirements. During the 1960-65 period agricultural output increased at an average annual rate of less than 6 percent, considerably less than the 8 percent average achieved in total GDP growth. In 1965, however, agricultural production reached US \$126 million, an increase of almost 9 percent over the preceding year.

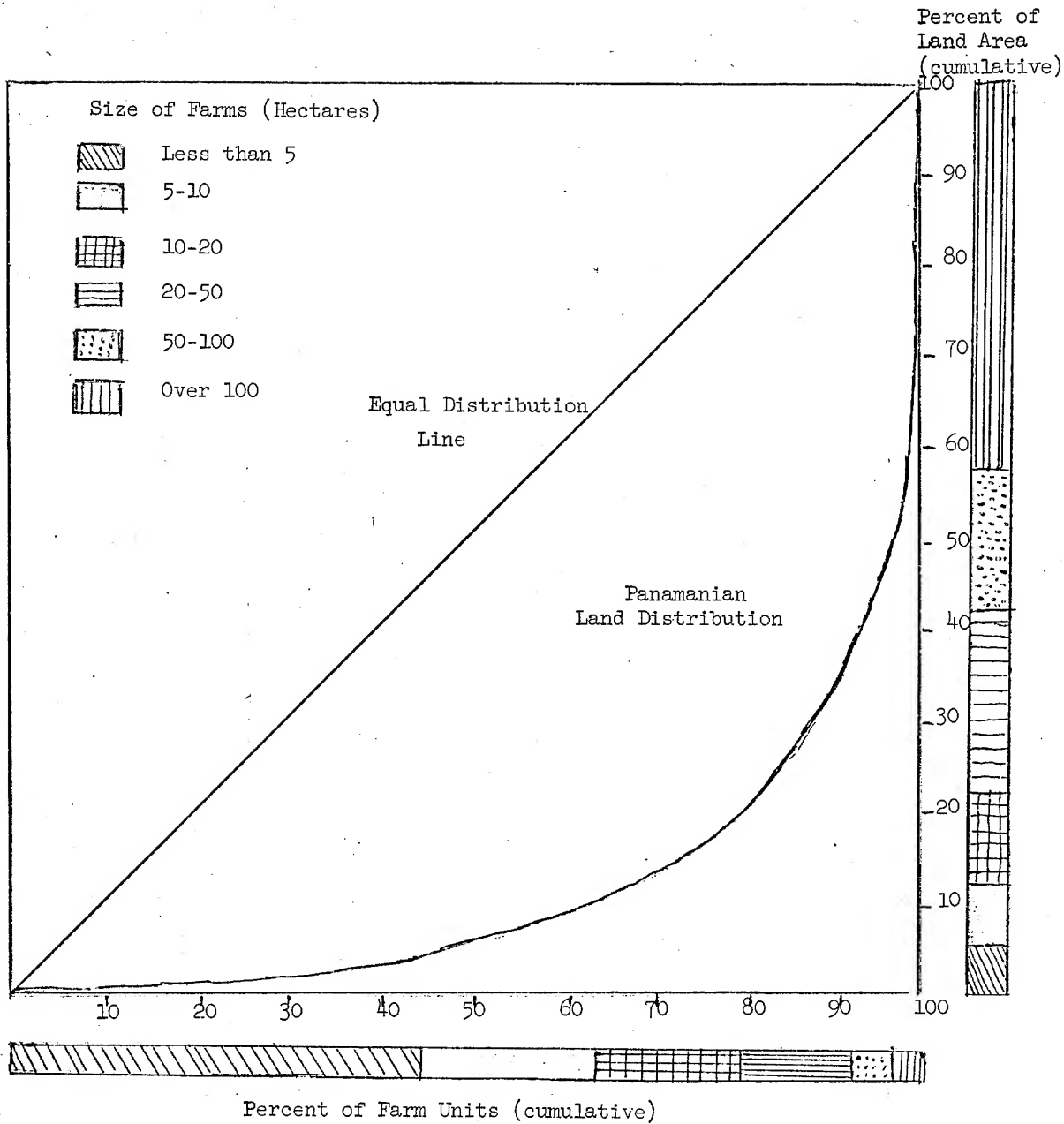
Nevertheless, consumer demand has outpaced production growth and Panamanian food imports have continued to increase, reaching US \$18.6

* Including fishing and forestry.

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Figure 10

Panama: Estimated Land Distribution, 1962



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mainly of cereals, fruits, vegetables, meats, dairy products, and eggs, most of which are supplied by the United States, Canada, and Western Europe. Panama has almost reached self-sufficiency in the production of corn and beans and now exports some rice and beef. Its main exports are bananas, sugar, coffee, cocoa, and shrimp.

1. Crops

a. Domestic

Inasmuch as farming methods have changed little and average yields have remained static, the size of the crop in Panama is largely a function of the area under cultivation. Under the Robles Plan, government interest in the agricultural sector has increased and production has been encouraged largely through application of financial incentives. Particular attention has been paid to basic food crops for domestic consumption, resulting in increases in plantings and output of these products. The area devoted to corn, rice, beans, and tobacco and their levels of production ^{and} yield are shown in Table 10.

Production of rice and corn, two staples in the diet, has been encouraged by support prices and loans extended through the Instituto de Fomento Economico (IFE). Support prices for rice are now US \$6.00 per quintal for first quality, long grained rice; US \$5.00 per quintal for short and medium grained rice; and US \$4.50 for the most commonly

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grown varieties of rice, Dina and Nilo. Since 1961 rice production has risen from 97,000 metric tons to 130,000 metric tons in 1965, an average annual increase of 7.6 percent. Corn production during the same period rose from 60,000 metric tons to 83,000 metric tons reflecting a growth rate of more than 8 percent. The revised support prices for corn now run between US \$3.25 and US \$3.75/ ^{per quintal.} Increased domestic production of rice and corn was reflected during 1965 in an 18 percent decrease in cereal imports from members of the Organization for Economic Cooperation and Development (which countries supplied 85 percent of Panama's total food imports).

Declining bean production in 1964 and 1965 led to increased government interest and aid to farmers. As a result, the Instituto de Fomento Economico, the Agrarian Reform Commission, and the Ministry of Agriculture, Commerce and Industry have supplied technical assistance and fertilizers and, more recently, a system of price supports was instituted. It is estimated that 1966 bean output will exceed the previous peak of 7,500 metric tons produced in 1963. A larger share of the growing domestic demand for tomatoes, onions, and citrus fruits is now supplied from domestic sources. During 1965 imports of fruits and vegetables as a whole decreased by an estimated 25 percent.

Tobacco output has more than doubled since 1961 without

Tobacalera Isimina, S.A. a subsidiary of British-American Tobacco Co., and

Tobacalera Nacional, S.A., a Panamanian company, purchase tobacco from

farmers under contract. These companies supply both technical and financial support to the producers. Imports of tobacco have fallen almost 17 percent during 1965 and further decreases are expected.

b. Exports

Bananas, the main agricultural export crop, provided over 40 percent of total registered export earnings in 1965. Banana exports have increased from US \$18 million in 1960 to well over US \$30 million in 1965; moreover, during the first six months of 1966 they reportedly ran 14 percent higher than the level of sales during the same period in 1965. These increases have been achieved, despite a decrease in the world price for bananas, by expanding the area planted by more than 50 percent since 1960. Most bananas for export are grown either by the Chiriqui Land Company (a subsidiary of United Fruit Company) on its two plantations near the Costa Rican border in Bocas del Toro and Chiriqui provinces or by private farmers in these areas who are under contract to the Chiriqui Land Company. (The area, production, and yield of bananas and the other major export crops are included in Table 10 .)

Sugar production has increased more than 90 percent since 1961 reaching 1,114,000 metric tons in 1965. At the same time the value of sugar exports has more than tripled, increasing from US \$800,000

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Table 10

Panama: Area, Production, and Yields of
Selected Agricultural Products

| | Calendar Year | | | | | |
|-----------------------------------|---------------|--------|--------|--------|--------|--------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
| <u>Bananas</u> | | | | | | |
| Area (hectares) | 11,200 | 16,800 | 13,700 | 16,100 | 16,600 | 17,000 |
| Production (thousand stems) | 12,600 | 17,800 | 15,500 | 18,100 | 18,675 | 19,175 |
| Yield (stem/hectare) | 1,125 | 1,060 | 1,130 | 1,125 | 1,125 | 1,130 |
| <u>Sugar Cane</u> | | | | | | |
| Area (hectares) | 16,600 | 16,340 | 20,000 | 21,850 | 20,440 | 25,620 |
| Production (thousand metric tons) | 639 | 578 | 607 | 592 | 785 | 1,114 |
| Yield (metric ton/hectare) | 38.50 | 35.35 | 30.35 | 27.05 | 38.40 | 43.45 |
| <u>Cocoa</u> | | | | | | |
| Area (hectares) | 7,870 | 5,615 | 5,185 | 4,200 | 4,200 | 4,350 |
| Production (metric tons) | 1,525 | 1,265 | 1,175 | 920 | 910 | 960 |
| Yield (metric ton/hectare) | .195 | .225 | .225 | .220 | .215 | .220 |
| <u>Coffee</u> | | | | | | |
| Area (hectares) | 24,700 | 25,000 | 26,200 | 27,300 | 26,200 | 25,600 |
| Production (metric tons) | 4,145 | 4,095 | 5,110 | 4,415 | 4,520 | 4,370 |
| Yield (metric ton/hectare) | .165 | .165 | .195 | .160 | .170 | .170 |

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Table 10

Panama: Area, Production, and Yields of
Selected Agricultural Products
(continued)

| | Calendar Year | | | | | |
|----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> |
| <u>Corn</u> | | | | | | |
| Area (hectares) | 85,500 | 77,300 | 91,800 | 83,100 | 94,100 | 98,800 |
| Production (metric tons) | 78,385 | 59,510 | 75,025 | 72,865 | 76,910 | 83,030 |
| Yield (metric ton/hectare) | .915 | .770 | .815 | .875 | .815 | .840 |
| <u>Beans</u> | | | | | | |
| Area (hectares) | 19,100 | 19,100 | 25,600 | 25,300 | 19,500 | 14,800 |
| Production (metric tons) | 5,950 | 5,275 | 6,870 | 7,305 | 4,860 | 4,165 |
| Yield (metric ton/hectare) | .310 | .275 | .270 | .290 | .250 | .280 |
| <u>Rice</u> | | | | | | |
| Area (hectares) | 97,400 | 88,800 | 100,400 | 99,600 | 103,300 | 120,800 |
| Production (metric tons) | 118,725 | 97,430 | 110,445 | 111,275 | 112,700 | 129,535 |
| Yield (metric ton/hectare) | 1.20 | 1.10 | 1.10 | 1.10 | 1.10 | 1.05 |
| <u>Tobacco</u> | | | | | | |
| Area (hectares) | 695 | 755 | 765 | 1,265 | 890 | 1,275 |
| Production (metric tons) | 610 | 555 | 675 | 1,195 | 785 | 1,215 |
| Yield (metric ton/hectare) | .875 | .735 | .885 | .945 | .880 | .950 |

in 1961 to US \$2.6 million in 1965. Sugar accounted

for nearly 4 percent of total registered exports in 1965. All sugar for export goes to the United States where Panama has a basic quota of 23,000 metric tons annually for 1966-71. The sugar industry in Panama is concentrated in Cocolé Province where two mills La Estrella, at Nota, and Santa Rose, at Aguadulce, account for almost all output. The mills refine cane supplied by 2,500 small farmers and the two larger haciendas owned by the mills. About half the cane comes from the farmers and the remainder from the haciendas.

Coffee of poor quality is widely grown by small farmers in Panama. The level of production has fluctuated between 4,000 and 4,500 metric tons since 1960. Coffee for export, representing about 30 percent of total production, comes mostly from Chiriquí Province where higher quality coffee is grown. This coffee, with export earnings of US \$1.2 million in 1965, is grown by some 270 small farmers and is processed and marketed by the Beneficio Central de Cafe. The value of 1965 coffee exports was almost 2 percent of total registered export earnings.

Cocoa is a minor export, earning only US \$240,000 in 1965. Because of low world prices for cocoa in recent years, the area planted has gradually decreased. Most cocoa for export is grown by the Chiriquí Land Company.

Exports of juice concentrates are expected to begin in 1967 from Citricos de Chiriqui, S.A., near David in Chiriqui Province.

This company, owned by a United States national and representing an investment of US \$9 million, has 450,000 orange trees and 150,000 lemon trees. Full production will not be realized until after 1970. The _____ are unknown but potential export earnings of this company/should be significant.

2. Livestock

Cattle population has remained static in recent years, increasing only from 847,000 in 1962 to 849,000 in 1965. An estimated 125,000 head were slaughtered during 1965, an increase of 9,000 head over 1962. Cattle exports have increased, however, from 385 head valued at US \$45,000 in 1961 to 7,361 head valued at US \$824,000 in 1964.

Panama has some potential as a producer and exporter of beef. Hoof and mouth disease is not a problem and beef therefore can be exported to the United States; the first shipment of Panamanian beef to this country was made in June 1966. Pasture lands necessary to expansion of the cattle industry are available, moreover, and government interest in this field may lead to the opening of new grazing lands. The livestock industry is hampered, _____ however, by the widespread use of relatively backward practices in animal husbandry and from the

lack of water and supplementary feed during the dry season. In an effort to upgrade practices and the quality of cattle, the IFE now is providing technical assistance and credits to the livestock industry but thus far the availability of funds has been limited.

Panama's dairy industry is not expanding at a sufficient rate to meet domestic demand and the market in the Canal Zone. Imports of dairy products increased by more than 50 percent between 1963 and 1965. The number of milking cows has increased only from 137,000 in 1961 to 139,000 in 1965. An average of 68,000 cows were milked during 1965 and milk production increased 5 percent to 71.3 million liters. Nearly 75 percent of production was sold as whole milk, 20 percent was consumed on farms, and 5 percent was used for cheese production. The national average production of milk^{per cow} is only three liters a day, with an average fat content of four percent.

Achievements in other sections of the livestock industry have been even less impressive. The number of hogs decreased from 214,000 in 1962 to 208,000 in 1964; estimates of hog population in 1965 indicate a return to a level barely approximating the 1962 count. The slaughtering of hogs followed the same pattern falling from 65,000 in 1962 to 51,000 in 1964, but ^{rising} to 75,000 in 1965. Panama does not import or export hogs. Poultry population declined from 2,489,000 in 1961 to 2,269,000 in 1964, though the trend was

level. Consumer needs are filled mainly by small farmers, but urban markets now are served to an increasing extent by a few modern commercial farms -- the Hacienda Fedanque and Hacienda Toledano in Panama City and and the Industrias de Nota, S.A. in Aguadulce.

3. Fishing

Shrimp is the most important fishing activity. In 1965 shrimp exports -- all of which went to the United States -- earned US \$8.3 million, an increase of more than 65 percent over the 1960 level of US \$5 million. Shrimp sales during 1965 accounted for 11 percent of Panama's total registered exports. Future increases are unlikely, however, as conservation laws limiting the number of shrimp boats on the Pacific side were recently passed to safeguard the current level of production.

Anchovy fishing for the fishmeal and fish oil industry has increased in recent years. The growth prospects for this activity have not been determined. In 1965 the one fish reduction plant in operation, located near Puerto Caimito and operated by Promarina, S.A., produced 5,669 metric tons of fishmeal, valued at over US \$900,000, and 1,409 metric tons of fish oil, valued at approximately US \$275,000. With the addition of a new plant on

Toboguilla Island, expected to be in operation in 1966, it is estimated that the value of fish reduction operations could exceed US \$2 million.

A survey by US/AID suggested that Panama has a potential for lobster production, but thus far there seems to be little local interest in developing such an industry.

4. Forestry

Although one of the most important natural resources in Panama, exploitation of forests for industrial and export purposes has been negligible. While it is known that mahogany, cupio (a soft wood), and cativo (suitable for plywood production) are abundant, large forested areas are unsurveyed. Wood is the most common local fuel in Panama and over 90 percent of all tree removals are for this purpose. Industrial wood production is limited to small amounts of sawnwood, plywood, paper and paperboard, and Panama still finds it necessary to import to supplement domestic output. Between 1959 and 1964 total exports of forestry products, mostly mahogany, were valued at only \$812,000 while imports during the same period measured \$1,892,000. (See Figure 5 .)

C. Role of Government in Agriculture

At the direction of President Robles, the Panamanian government in 1963 formulated a "Program for Economic and Social Development." Largely designed to attack problems in the agricultural sector, one

of its most important goals was to increase production to a point where consumption could be increased while at the same time lessening Panama's dependence upon foreign markets as a source of agricultural supplies. The plan also looked forward to the eventual discontinuance of the price support program and the development of greater crop diversification. The plan stated only general goals and did not detail specific projects or investment plans. It did, however, provide for a cadastral survey which is still in progress.

Four government agencies are responsible for agricultural policy: the Ministry of Agriculture, Industry and Commerce, (MAIC); the Institute for Economic Development (IFE); the Livestock Institute; and the Commission for Agrarian Reform.

1. Ministry of Agriculture

The Ministry is divided into units that have responsibility for scientific research, animal and plant sanitation, extension services, agricultural engineering, zootechnics, adult vocational education, farm economics, and the development and supervision of cooperatives. In order to maintain closer contact with the farmers and to enlarge its area of influence, the Ministry has been separated into regional units. The area of responsibility of the Ministry is very broad, however, and fulfillment of its functions is handicapped by a lack of trained administrative and technical personnel. The extension services and

the agricultural research programs, for example, are far too limited to accomplish even minimum goals. Perhaps most important, the Ministry does not have a unit which is responsible for broad sectorial planning and for the coordination and evaluation of the programs of the various government agencies operating in the agricultural sector.

2. The Institute for Economic Development

The Institute for Economic Development (IFE) has responsibility in the agricultural sector for promoting agricultural production and for diversifying output through the introduction of new crops. The IFE determines and administers the price support programs and controls prices through the purchase, storage, and sale of selected domestic as well as imported products. It also grants loans to farmers, stock-breeders, and foodstuffs producers and it is responsible for the program to multiply and distribute improved seed.

The IFE has 15 agricultural credit agencies in the interior of the country and maintains its headquarters in Panama City. Between 1960 and 1965 the IFE granted US \$9,427,000 in loans to Panamanian farmers. During the first five months of 1966 there were 2,000 loans made for a total of US \$1.3 million; more than 98 percent of the loans were for less than US \$5,000. Many loans, however, do not reach low income farmers because of excessive collateral requirements. There also has been evidence of regional bias in loan extensions. For

example, in 1964, the province of Chiriqui produced 24 percent of the rice crop, but received 55 percent of the total credits granted by the IFE for rice production. In contrast, Veraguas province accounted for 25 percent of the rice crop, but its share of IFE credits was only 8 percent.

Inadequate funds constitute an important factor limiting the activities of the IFE. It is an autonomous agency of the government and receives most of its revenue from its own activities, such as bond issues and interest payment on loans, and from foreign assistance loans. The government contribution to IFE averages only 14 percent of IFE's annual budget.

3. The Livestock Institute

Development and coordination of the livestock export industry is the major objective of the Livestock Institute. At present, the work of the Institute is centered on determining and administering pricing policies. Domestic cattle prices generally are higher than the prevailing world market price; ten percent of the total value of livestock exports currently is subsidized.

The Livestock Institute is supported by the government from a surcharge levied on the slaughter tax. Only with greater funds will the Institute be able to introduce the improved breeding techniques and practices necessary to an enlarged and more competitive

livestock industry.

4. Agrarian Reform Commission

Established in 1962, the Agrarian Reform Commission is answerable directly to the President, but is administratively within the Ministry of Agriculture, Commerce and Industry. Its main efforts thus far have been concentrated in the areas of titling, leasing, and distributing lands; the execution of a cadastral survey; and an evaluation of all natural resources of the country. The rural cadastral survey is about half completed and the section on the Alanje area (Chiriqui Province) is now available.

The 1961 census showed that 90 percent of the 95,000 farms in Panama were held without clear title and that about half of the total number of farms were occupied by squatters. During the period from March 1963 through December 1964, almost 11,500 title requests were received by the Agrarian Reform Commission but only 121 titles were issued. During 1965, the pace increased to 240 titles issued on the basis of approximately 11,250 requests. Commission plans for 1966 call for the processing of 1,900 farm titles on which perhaps 750 titles will be issued.

Several factors have contributed to the slowness of the process of titling lands. Information necessary to the issuing of legal

titles is not yet fully developed and lack of experience in this field contributed to bureaucratic bottlenecks in the early stages of the program. The Agrarian Reform Commission, moreover, continues to be hampered by limited financial resources; in 1965 only \$706,000, or 0.8 percent of the national budget, was earmarked for its activities. The law authorizes the Commission to issue bonds up to a total of \$50 million and to contract for external credits to the same amount, but thus far bonds totalling only \$2 million have been issued and an AID loan of \$2.4 million contracted. Another factor contributing to the lack of progress in establishing land tenure is the tendency of farmers to establish a prior right to property by submitting a request for titling without carrying the process to the stage of final issuance of title. Actual distribution of property through sales by the Agrarian Reform Commission has been slowed by the requirement of 20 percent of the value as a downpayment, thereby restricting purchases by farmers with scant resources.

5. Foreign Assistance to Agriculture

The United States through the Agency for International Development (AID) in 1964 extended a loan of US \$2.4 million for the Rural Cadastre and Natural Resources Survey. The study is scheduled for completion in December 1967 and includes the following sections:

identification of rural property; maps on present and potential soil

usage; assessment of irrigation possibilities; socioeconomic surveys at farm unit levels; and an evaluation of the rural transportation system.

The United Nations Special Fund has provided US \$823,000 for a study of mineral resources and US \$969,000 for a feasibility study of the La Villa irrigation project. The FAO and the United Nations have provided US \$1.5 million for a forest inventory that will take four years to complete. Another FAO project to study the improvement of grasses for pastures, better pasture management, and the introduction of new haying and ensilage techniques has been undertaken.

The activities of the Institute for Economic Development (IFE) were aided by a loan of US \$2.9 million from the Inter-American Development Bank in December, 1961, to allow extension of agricultural credit to small-and medium-scale farmers. This loan was completely expended and in April 1965 a second loan was granted from the IDB's Social Progress Trust Fund. The purpose of this loan is to finance 62.5 percent of the cost of a program to extend short, medium, and long term loans to 5,700 low-income families for the purchase of agricultural equipment, fertilizers, insecticides, and cattle.

III. Industry

The manufacturing sector has increased its contribution to total GDP from 13 percent in 1960 to 16 percent in 1965, growing at an average annual rate of 12 percent. Annual growth rates have fluctuated widely, however, from a high of nearly 23 percent in 1962 to less than 6 percent in 1964. The sector's growth in 1965 was about 7 percent and in 1966 an increase of 9 percent is expected. (See Table 11 .)

The industrial sector contributes little to foreign exchange earnings (refined petroleum products are the only significant industrial export) and employs only 8 percent of the labor force. The principal developments in the past five years have been the expansion of cement producing facilities, sugar mills, paint processing, steel and aluminum extrusion plants, and construction of a new citrus concentration plant, a palm oil extraction facility, and a petroleum refinery. Panama currently produces practically all of its requirements for cement, refined petroleum products, steel reinforcing bars, many

Table 11
Panama: Value-Added of Industrial Production
1960-65

Millions US 1960 dollars

| Industry | 1960 | Percent of total | 1961 | 1962 | 1963 | 1964 | 1965 | Percent of total | Average annual growth rate % |
|----------------------------------|-------------|---------------------|-------------|-------------|-------------|-------------|-------------|---------------------|---------------------------------|
| <u>Light industry</u> | <u>38.3</u> | <u>70.2</u> | <u>41.8</u> | <u>45.8</u> | <u>51.9</u> | <u>54.0</u> | <u>57.7</u> | <u>59.0</u> | <u>8.6</u> |
| Food, beverage and tobacco | 28.0 | 51.5 | 31.6 | 33.6 | 38.5 | 40.5 | 43.1 | 44.1 | 9.0 |
| Footwear and clothing | 5.4 | 9.9 | 5.2 | 5.5 | 5.5 | 5.4 | 6.1 | 6.2 | 2.5 |
| Furniture and fittings | 2.7 | 4.9 | 2.4 | 4.0 | 4.4 | 4.9 | 5.3 | 5.4 | 14.4 |
| Lumbermills and wood products | 1.6 | 2.9 | 1.9 | 2.3 | 2.7 | 2.4 | 2.5 | 2.6 | 9.3 |
| Leather products | 0.6 | 1.0 | 0.6 | 0.4 | 0.7 | 0.8 | 0.6 | 0.7 | 0.0 |
| <u>Intermediate industry</u> | <u>8.1</u> | <u>14.9</u> | <u>9.0</u> | <u>17.5</u> | <u>19.0</u> | <u>19.5</u> | <u>20.8</u> | <u>21.4</u> | <u>20.8</u> |
| Chemical products | 1.9 | 3.5 | 1.8 | 1.9 | 3.0 | 2.9 | 2.8 | 2.9 | 8.0 |
| Nonmetallic products | 5.2 | 9.5 | 5.1 | 6.5 | 7.4 | 6.8 | 7.0 | 7.2 | 6.2 |
| Rubber products | 0.2 | 0.5 | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 | 0.0 |

Table 11
Panama: Value-Added of Industrial Production
1960-65
(continued)

Million US 1960 dollars

| Industry | 1960 | Percent of total | 1961 | 1962 | 1963 | 1964 | 1965 | Percent of total | Average annual growth rate % |
|-----------------------|-------------|---------------------|-------------|-------------|-------------|-------------|-------------|---------------------|---------------------------------|
| Paper products | 0.8 | 1.4 | 1.7 | 2.3 | 2.8 | 3.2 | 3.9 | 4.0 | 37.3 |
| Petroleum products | 0.0 | 0.0 | 0.0 | 6.5 | 5.5 | 6.4 | 6.9 | 7.0 | |
| Metal products | 2.1 | 3.8 | 4.8 | 6.0 | 6.6 | 8.5 | 9.3 | 9.5 | 34.7 |
| Other industry | 6.1 | 11.1 | 7.4 | 8.0 | 9.1 | 9.5 | 9.9 | 10.1 | 10.1 |
| <u>Total industry</u> | <u>54.5</u> | <u>100.0</u> | <u>63.0</u> | <u>77.3</u> | <u>86.6</u> | <u>91.5</u> | <u>97.7</u> | <u>100.0</u> | <u>12.3</u> |
| Percent of GDP | 13.0 | | 13.7 | 15.5 | 16.0 | 16.1 | 15.9 | | |
| Percent change | -- | | +15.6 | +22.7 | +12.0 | +5.7 | +6.8 | | 12.3 |

aluminum products, soaps and detergents, and some consumer goods. It depends on imports for automobiles and transportation equipment, industrial and synthetic organic chemicals, manufactured fertilizers, glass, most textiles, and a wide variety of consumer items.

Panama's industry is concentrated almost entirely in the immediate area of the terminal cities of Panama City and Colon. Fully 90% of industrial capital investment, representing nearly three-quarters of the nation's establishments, is located in this area. In addition, almost 80 percent of construction in 1965 took place in these cities. Almost half of Panama's industrial firms have a capital base of less than \$1,500 and only 10 percent have more than \$50,000. Many of these small and often inefficiently operated firms are dependent on tariff and quota protection for survival.

The structural weaknesses of the industrial sector are compounded by the limitations of the economy as a whole. The total population of the country is less than that of metropolitan Houston; the entire urban population is comparable to Denver. The smallness of the market, which is aggravated by an inadequate transportation system, limits the size and variety of domestic industries, most of which are involved in production for import substitution and are of a light industrial nature. Many firms are reported to be operating with a considerable margin of unused capacity.

Thus far, they have been unable to develop markets abroad primarily because of their non-competitive price position.

The outlook for Panamanian industrial development depends to a large extent upon three as yet unsettled questions. First, the relationship of Panama to the Central American Common Market remains unresolved. Many industrialists favor joining CACM to expand their markets but various commercial groups of importers and retailers oppose increasing Panamanian tariff barriers to the CACM level. Second, negotiations on the new canal treaty are still incomplete and have created uncertainty as to the future location of the Canal. Third, the outlook for the stability of the Robles government is uncertain. Private investment, both foreign and domestic, has been the primary stimulant to the industrial sector and a slackening of investors' confidence could curtail future industrial growth.

A. Resources

1. Raw Materials

The agricultural and mineral resources available in Panama for local industries remain essentially undeveloped. The most significant progress made in the past five years has been in the industrial utilization of a variety of agricultural products apart from traditional rice, coffee, and milk processing. This includes new vegetable oil facilities, tomatoe processing plants, and citrus concentration and freezing facilities.

Exploitation of domestic mineral resources has been confined to satisfying domestic needs for cement, clay, and salt and to meeting construction requirements for sand and gravel.

Mineral resources include limited deposits of gold, bauxite, copper, manganese and lignite, but none are commercially exploited. Geological surveys of mineral resources were begun in 1966 under the auspices of the United Nations. A survey of this nature previously was conducted in 1945 and to a small extent in 1956. The \$1.3 million survey underway will investigate the central provinces over a two year period. The area west of Panama City is being surveyed by ground water geologists of the CATAPAN team (a consortium of International Engineering Co., J.L. Jacobs Co., and International Resources and Geotechnics Inc.). In addition, a non-metallic resources survey in Herrera Province is in process.

Numerous investigations also have been undertaken by private holders of mineral concessions granted by the government. Five petroleum exploratory concessions are in effect but only one company has announced drilling plans. Nine exploratory concessions for gold -- including an off-shore concession to extract gold from beach-sands -- are currently valid. Exploratory concessions also have been granted covering copper, manganese, limestone, and iron (magnetite).

/2. Power

The power industry in Panama is a mixed system consisting of one public agency and several private enterprises. The public entity is charged with providing power in rural areas and developing Panama's power resources, while private companies serve urban areas and the Panama Canal Zone. (Figure 6 shows the respective areas of distribution.)

The value added of Panamanian utilities amounted to \$14.6 million in 1965, an increase of 22% from the previous year and 75% more than the value added in 1960. Total installed capacity in 1965 amounted to about 174 megawatts (MW), nearly half of which is located in the Canal Zone. Of the facilities in the Republic, 91% are operated by private companies with the Compania Panamenã de Fuerza y Luz (Panama Power and Light Company-CPFL) accounting for more than three-quarters of private installed capacity. Production of electricity in Panama City and Colon, principally generated by CPFL, has increased at an average rate of 15% per year since 1960. As shown in Table 12, production has more than doubled between 1960 and 1965.

Electricity Production in Panama City and Colon

| | <u>1950</u> | <u>1955</u> | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | Est. <u>1966</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------|
| Million KWH | 85.7 | 113.7 | 180.7 | 206.6 | 233.9 | 264.6 | 292.0 | 378.2 | 417.5 |
| Annual increase (%) | -- | 5.9 | 9.7 | 14.3 | 13.2 | 13.1 | 10.4 | 29.5 | 10.4 |

The cost of electricity in Panama City and Colon is relatively expensive for Latin America. Commercial rates are 5.5¢ per kwh, residential 3.6¢, and 2.5¢ per kwh for industrial users.

A statistical summary of the various electric companies is presented in Table 13. Excluding the Panama Canal Company, which provides some power outside the Zone, the private utilities are dominated by the CPFL, a subsidiary of American and Foreign Power Company. A 1927 contract grants the company operating rights in perpetuity and virtual exemption from all Panamanian taxes. Unsuccessful negotiations for a new contract have been underway for the past two years but presently are suspended until at least February 1967. The company recently concluded a power-sharing agreement with the Panama Canal Company.

Another large private system is the Empresas Electricas de Chiriqui (Chiriqui Electric Company -- EEC) in western Panama. This system was built by the United Fruit Co. to serve its Chiriqui Land Company

plantation and the city of David. The company shares its electric production with Costa Rica in the Golfito border region. Included in its system is the largest hydroelectric facility in Panama outside the Canal Zone. The balance of the private power systems, such as Hidroelectrica de La Chorrera, El Valle, and Santiago Electrica S.A., are small isolated companies.

Table 13

Panamanian Electric Power Companies

| Systems | Consumption, 1965 million kwh | Installed capacity 1963 thousand kw | Customers 1963 thousand |
|----------------------------------|----------------------------------|--|----------------------------|
| <u>Government</u> | | | |
| Inst. Rec. Hid. y Ele. (IRHE) | 14.2 | 7.7 a/ | 13.1 b/ |
| <u>Private</u> | | | |
| Panama Canal Company | 454.1 | 84.5 | n.a. |
| Cia Pan. Fuerza y Luz (CPFL) | 315.0 | 63.1 b/ | 71.4 |
| Emp. Elec. de Chiriqui (EEC) | 24.9 | 9.1 | 8.8 |
| Hidro. La Chorrera | 2.5 c/ | 1.3 | 2.0 |
| Santiago Electrica S.A. | 1.8 c/ | .7 | 1.4 |
| El Valle | n.a. | .2 | n.a. |
| Others | n.a. | 7.8 | n.a. |

a. Data are for 1964.

b. Data are for 1965.

c. Data are for 1963.

The government has not played a major role in the past development of Panamanian electrification. It was not until 1961 that the government established the Instituto de Recursos Hidraulicos y Electrificacion (Institute of Hydraulic Resources and Electrification--IRHE) which acquired two former private companies, La Nacion and Panama Electrica, S.A. The IRHE presently controls less than 10% of total installed capacity and generates less than 4% of total production. Details of IRHE's facilities and services and their growth are given in Table 14.

Table 14

Panama: Operation of the Institute of Hydraulic Resources and Electrification 1961-65

| | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| Installed capacity (MW) | n.a. | 5.4 | 6.3 | 7.7 | n.a. |
| Consumption (mil. kwh) | 8.7 | 9.9 | 11.2 | 12.7 | 14.2 |
| Residential (mil. kwh) | (1.8) | (3.0) | (3.7) | (4.2) | (6.0) |
| Commercial (mil. kwh) | (1.8) | (2.6) | (3.1) | (3.3) | (4.0) |
| Consumers (thousand) | 8.1 | 9.2 | 10.3 | 11.5 | 12.1 |
| Residential (thousand) | (4.6) | (7.9) | (8.9) | (10.2) | n.a. |
| Commercial (thousand) | (1.0) | (1.3) | (1.3) | (1.2) | n.a. |
| Plants with 24-hr. service | n.a. | 4 | 10 | 13 | n.a. |
| Towns served | 66 | 73 | 76 | 89 | 92 |

In addition to rural electrification the IRHE is charged with developing new sources of power. Plans for the implementation of the Bayano, Chiriqui-Chico, and the Santa Maria^{power} projects are in varying degrees of readiness. The principal obstacle to all proposed power projects has been their financing. A summary of development plans is presented below in Table 15.

Table 15
Panama: Power Facilities Planned or Under Construction

| Project | Type | Capacity (MW) | Cost million | Remarks |
|---|---------|---------------|--------------------------|--|
| CPFL San Francisco | Thermo- | 12.5 | \$7.4 | Operational. |
| CPFL Las Minas Bay | Thermo- | 22.0 | | To be completed late 1966. |
| CPFL Las Minas Bay | Thermo- | 33.0 | \$10.0 | Feasibility study completed. No immediate plans for construction. |
| IRHE La Yeguada | Hydro- | 12.0 | \$4.0 | First stage (6,000 kw) to be completed in late 1966. |
| IRHE Las Minas Bay | Thermo- | 40.0 | \$7.7 | Construction contract awarded October 1966. |
| IRHE Bayano | Hydro- | 100-140 | \$40-60 | Two feasibility studies completed; bids solicited for design and specifications. |
| IRHE Chiriqui-Chico (Paja de Sombrero) | Hydro- | 30.0 | \$15-18 (first stage) | Feasibility study completed. |
| IRHE Santa Maria (Santa Fe) | Hydro- | 23-60.0 | \$11-32 | Prefeasibility study planned. |

Panama currently is unable to satisfy requirements for electricity in urban areas and rural service is still in its early stages of development. Present estimates of future demand indicate a continuing deficit in the near future despite Panama's hydroelectric potential of 600 MW. Partially as a result of this situation, many of the large new industries, such as the petroleum refinery and the cement factory, have been forced to provide their own power sources.

The policy of the IRHE with respect to rural electrification has not been established. At least temporarily, the government has abandoned its program of modernizing and expanding its network of small isolated generators and currently favors development of large hydroelectric generating and distribution facilities. In the meantime, however, IRHE has secured a small loan from the Banco Nacional to maintain the present level of rural service.

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B. Structure

1. Ownership

Two of every three enterprises in 1965 were individually owned. (See Table 16 .) Including partnerships, which generally do not extend beyond members of the same family, this type of ownership is found in 70% of all manufacturing facilities. In terms of capitalization, however, individual ownerships and partnerships represent only 5 percent, or US \$4 million, of total industrial investment. Corporations control 95% of Panama's industrial capitalization, or US \$78 million. Corporate stocks generally are held by family groupings. The number of stockholders is so small that the country lacks a formal stock commission to control trading. Stock quotations that are periodically published usually reflect only the nominal stock value.

The system of closely held and intertwining ownership is the economic base of Panama's oligarchy. Capitalization from personal and family resources, limited distribution of ownership, and the small size of the market has bred personal and sectorial monopolies. Government industrial

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Table 16
Panama: Structure of the Manufacturing Sector
1965

| Type | Number total | Capitalization total a/ percent | Ownership b/ | | | | Employment (1962) total percent | | |
|------------------------------|-----------------|---------------------------------------|-----------------|-----------|----------------------|-----------|---------------------------------------|-------|----|
| | | | Sole % total | % capital | Corporate % total | % capital | | | |
| <u>Light industry</u> | | | | | | | | | |
| Food, beverage and tobacco | 419 | \$23.9 | 29 | 67 | 3 | 3 | 94 | 3,793 | 33 |
| Footwear and clothing | 313 | 3.5 | 4 | 84 | 14 | 13 | 79 | 1,942 | 17 |
| Furniture and fittings | 145 | 2.0 | 2 | 70 | 20 | 24 | 75 | 725 | 6 |
| Lumber and wood products | 40 | 1.7 | 2 | 43 | 10 | 50 | 82 | 284 | 3 |
| Leather products | 27 | 0.4 | -- | 78 | 13 | 15 | 86 | 146 | 1 |
| <u>Intermediate industry</u> | | | | | | | | | |
| Chemical products | 73 | 4.1 | 5 | 21 | 2 | 75 | 89 | 649 | 6 |
| Nonmetallic products | 33 | 6.8 | 8 | 36 | 1 | 58 | 98 | 838 | 7 |
| Rubber products | 14 | 0.3 | -- | 57 | 1 | 43 | 99 | 45 | -- |
| Paper products | 15 | 1.9 | 2 | 7 | -- | 93 | 100 | 340 | 3 |

Table 16

Panama: Structure of the Manufacturing Sector
1965
(continued)

| Type | Number total | Capitalization total a/ percent | Ownership b/ | | | | Employment (1962) total percent |
|----------------------|-----------------|---------------------------------------|-----------------|-----------|----------------------|-----------|---------------------------------------|
| | | | Sole % total | % capital | Corporate % total | % capital | |
| Basic metal products | 4 | 0.5 | 1 | 0 | 0 | 100 | 93 |
| Metal products | 73 | 3.4 | 4 | 52 | 2 | 44 | 1,048 |
| Petroleum refining | 1 | 30.0 | 37 | 0 | 0 | 100 | 365 |
| Other industry | 357 | 3.4 | 4 | 69 | 14 | 25 | 1,080 |
| Total industry | 1,514 | \$81.9 | 100 | 66 | 3 | 29 | 11,348 |
| Construction | 126 | 6.0 | 100 | 11 | 19 | 84 | 4,262 |
| Mining | 23 | 2.5 | 100 | 22 | 1 | 70 | 82 |
| Utilities | 16 | 33.9 | 100 | 13 | 1 | 81 | 1,033 |

a. Millions US dollars.

b. Excludes partnerships.

Figures may not add due to rounding

monopolies are limited to the production, distribution, and sale of salt, and the distribution of alcohol for liquor production.

Foreign ownership is limited to only a small number of large enterprises requiring heavy capitalization and foreign owners generally hold only minority interests. Principal foreign owned firms are the Panama Power and Light Company, the Chiriqui Land Company (United Fruit Co.), Panama Refinery Incorporated, and most industrial firms in the Colon Free Zone.

2. Industrial Investment

Sources of industrial investment funds are foreign capital inflows, domestic bank credit, and re-invested profits. An aggregate measure of industrial investment is not available, but gross domestic private investment increased nearly 55% in the 1960-65 period, averaging 14% of GDP annually. Private investment increased steadily throughout this period with the exception of 1964 when political unrest resulted in capital flight. (See Table 17.)

Table 17

Panama: Gross Domestic Private Investment

| | Millions of Dollars, 1960 Prices | | | | | |
|-----------------------|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> |
| Inventory | 7.0 | 8.4 | 10.9 | 11.1 | 12.4 | 16.8 |
| Construction | 27.9 | 18.6 | 23.3 | 32.1 | 26.6 | 32.8 |
| Capital goods | 21.5 | 38.8 | 36.7 | 36.9 | 34.0 | 37.5 |
| Total | <u>56.4</u> | <u>65.8</u> | <u>70.9</u> | <u>80.1</u> | <u>73.0</u> | <u>87.1</u> |
| Percent GDP | 13.5% | 14.3% | 14.2% | 14.8% | 12.8% | 14.2% |
| Percent capital goods | 38.1% | 59.0% | 51.8% | 46.1% | 46.6% | 43.1% |

Credit for industrial investment from domestic banks has expanded at an average rate of more than 16% per year since 1960. As a portion of total bank loans, industrial loans have increased from 9% in 1960-62 to 14% in 1963-65. (See Table 18). In 1965, total bank loans expanded by more than one-third but industrial loans contracted slightly. An increase in unreported short-term overdrafts used for capital investment probably offset this decline.

Table 18

Panama: Total Bank Loans, 1960-65 a/

| | Million Dollars | | | | | |
|---------------|-----------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> |
| Total loans | \$100.8 | 119.1 | 136.6 | 122.7 | 144.6 | 198.2 |
| Industrial | \$ 8.7 | 10.6 | 12.8 | 20.1 | 22.4 | 21.6 |
| Percent total | 8.6% | 8.9% | 9.4% | 16.4% | 15.5% | 10.9% |

a. Totals granted during calendar year.

The low level of bank credit available to small industries led to the creation in 1963 of the Banco de Desarrollo Industrial (Bank for Industrial Development -- DISA), initiated with an AID loan of \$5.1 million and a private subscription of \$1 million. By mid-1966, DISA had lent \$4.2 million to small industries at reasonable interest rates on long term. More than two-thirds of the loans went to import-substitution industries, which were credited with creating more than 1,000 new jobs. An additional \$4.0 million AID loan and another \$1 million private subscription will be available by the end of 1966.

As shown in Table 19, foreign capital was an important source

of funds for industry in 1960-62, but has since become of lesser importance.

The principal factor in the early 1960's was the external financing of a petroleum refinery. Following the political troubles in 1964, the exodus of short-term capital was nearly three times the volume of private capital inflows. By 1965 the net capital outflow had decreased to about \$8 million.

Table 19

Panama: Foreign Capital Flow to the Private Sector, 1960-66

| | Million US \$ | | | | | | |
|--|---------------|--------------|--------------|-------------|--------------|--------------|---------------------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>Estimated 1966</u> |
| Long-term direct investment | \$17.3 | 36.1 | 21.7 | 7.7 | 3.2 | 2.2 | 4.0 |
| Other long-term investment | -1.8 | 4.2 | 3.3 | 5.4 | 4.7 | 3.0 | 4.0 |
| Short-term capital, incl. net errors and omissions | <u>1.1</u> | <u>-23.1</u> | <u>-10.5</u> | <u>-8.5</u> | <u>-22.6</u> | <u>-13.6</u> | <u>-1.0</u> |
| Net total* | 16.6 | 17.2 | 14.5 | 4.6 | -14.7 | -8.4 | 7.0 |

* Minus indicates outflow.

The two additional sources of capital for industrial development are stock issues and internal corporate financing. The use of stock certificates in the open market is very limited. Re-invested corporate earnings probably are a significant source of capital but data are not available on the size of such investments.

3. Industrial Labor Force

Since 1960, the industrial labor force has increased at an annual rate of about 3 percent. The number of industrial workers in 1964 was estimated at approximately 31,000 -- or nearly 8 percent of the total labor force. Industrial employment ranks fourth in importance after agriculture, services, and commerce. Data for 1964 shows that only seven out of every ten industrial workers were employed full time, while two out of ten were employed part time, and one out of every ten was either unemployed or an unsalaried family employee.

Although there is a shortage of skilled workers in Panama, the labor force does compare favorably in skills with most Latin American countries. Vocational training given Panamanians employed in the Canal Zone as machinists, welders, and lathe operators has been an important source of skilled workers. Vocational training has been undertaken to a small degree by private industry and the government. In 1965 the Institute of Human Resources (IFARHU) was established by the government to augment the efforts of the Ministry of Labor. Legislation also has been proposed that would require the private sector to allocate the equivalent of 10 percent of its gross payroll for labor training.

As estimated 5 percent of the country's labor force is organized into labor unions. Half of these union members are located in urban centers and nearly all represent trade and service organizations. Industrial unionization is small, and labor organizations generally are "company" unions, not affiliated with any major labor confederation. The government's system of selective minimum wages favors the industrial worker and lessens the appeal of unionism/ in industry. At the same time, because the pool of unemployed workers is large, the job market for unskilled workers is very competitive. Collective bargaining contracts are practically non-existent.

C. Manufacturing

1. Food, Beverages, and Tobacco

Food processing industries are the most numerous of Panama's manufacturing sector and account for nearly 45 percent of the total value of manufacturing. The value added of domestic production in the foodstuff industry was \$43 million in 1965. (See Table 11.) The growth of this sector has averaged 9 percent per year since 1960, as compared with 12 percent for the industrial sector as a whole.

a. Milk

Milk production in 1965 amounted to 18.8 million gallons, about half of which was processed by the country's four milk plants. Production of processed milk in all forms amounted in 1965 to 6,726 metric tons. The largest and oldest plant, Cia Panamena de Alimentos Lacteos, S.A. in Nata, produces evaporated, condensed, and pasturized milk. Cia. Chiriquana de Leche in Concepcion, produces powdered milk, and another plant in Panama City produces a wide variety of dairy products. The fourth plant is located in the Canal Zone. At the present time, the processing capacity of the milk industry is considerably in excess of the domestic supply of raw milk.

b. Meat

Panama has numerous abattoirs, but most lack storage and refrigeration facilities. The largest plant, the Abattoir Nacional S.A., in Panama City, has a daily capacity of 250 cattle and 150 hogs. A new \$1 million abattoir of US design located in David opened in mid-1965. Processing capacity far exceeds the local supply of slaughter livestock. Value of meat production dropped 37% in 1965 to \$600,000 due to a reduction in available slaughter animals. The value of stock lost by drought and disease in 1965 exceeded the value of cattle commercially slaughtered. Poultry is generally sold live to the consumer.

c. Sea Food

The fishing industry is limited largely to shrimp processing and fish reduction. Seven major companies process shrimp from Panamanian waters. The largest, the Panama Cooperative Fish Company, has a \$1 million plant with freezing units for 4,000 pounds of shrimp and cold storage facilities for 100,000 pounds. The shrimping industry, which employs about 3,000 persons, has led to the expansion of boat building and repair facilities and the establishment of a new box plant (Corporacion Industrial). A new fishmeal facility on Taboquilla Island, which has an hourly capacity of 50 tons, began operations in 1966. An older plant with 12 ton per hour capacity is located at Caimanito. Total production in 1965 amounted to 5,670 metric tons of fishmeal and 1,410 metric tons of fish oil.

d. Cereals

In 1963 Panama opened its first flour mill. Utilizing imported unmilled wheat, the plant produced 45 million pounds of flour in 1965. Another mill with a larger capacity will open in 1966 and will produce, in addition to wheat flour, various specialty flours and animal feed for both the domestic and export markets. Bread is baked by numerous small bakeries but two modern bakeries dominate the urban market. Rice is milled in David by the country's only plant. Several

companies process domestic rice, corn, and molasses for chicken and cattle feed.

e. Other Foods

Panama's two sugar mills (El Ingenio Ofelina and El Ingenio Santa Rosa) have recently/modernized and each now has a capacity of about 3,000 tons of sugarcane per 24-hour day. They produce sugar and molasses for domestic and export markets. Numerous small mills produce a less refined sugarcake called Panela. Panama has several canneries processing a variety of local fruits and vegetables. The processing of tomatoes into pastes, sauces, juices, and soup has more than doubled in the past five years to 3,326 metric tons. Citros de Chiriqui, a 10,000 acre citrus plantation near David, has constructed a plant to concentrate and freeze citrus fruits for export.

Panama has two edible oil plants that produce margarine and lard, process copra, peanuts, and sesame, and refine imported crude soy bean oil. The largest plant, Industria Panama Boston S.A., dominates the market and produces a variety of other consumer items.

f. Beverages and Tobaccos

Non-alcoholic beverages for domestic consumption are produced by several soft drink bottlers. Production of alcoholic beverages increased 7.2% to a total of 32.7 million liters in 1965. Beer accounted for 90% of Panama's alcoholic beverage production. One of the two beer

breweries is located in Panama City and represents an investment of more than \$11 million. It is the country's largest single industrial employer. A variety of fermented drinks are produced by numerous home industries. Cigarettes are manufactured from blends of local and imported tobaccos by three factories. Only filter tipped cigarettes are produced, many under license to US companies. Output in 1965 totaled 817 million pieces. Approximately 72 million pieces are smuggled annually into the country.

2. Footwear and Clothing

The footwear and clothing industry has grown slowly at an annual rate of 2.5 percent. Producers are generally small and inefficient, employing antiquated machinery. Panama does not produce textile fabrics, but a \$8.7 million textile factory in the Colon Free Zone is scheduled for completion in early 1967. This plant will produce 2,500 metric tons of cotton fabrics per year. Its product will be exported and used domestically. In the planning stage is a smaller textile factory representing an investment of \$1.6 million. Raw cotton will be imported by both plants until domestic production is capable of meeting demand.

Clothing manufacture is primarily a cottage industry; in 1960 there were 7,400 home establishments making clothing. An exception is the shirt making industry which operates under license from large U.S. firms, including Manhattan, Van Huesen, and MacGregor.

Footwear production in Panama, utilizing imported plastics and local leathers, is sufficient to satisfy the low-priced domestic market. Output in 1964 was estimated at 900,000 pairs. In Panama City there are about thirty manufacturing shops.

3. Metal Products

The metal products industry has grown at an average annual rate of 35 percent since 1960 and its value-added output in 1965 was equal to 10 percent of total industrial output. The metal products industry in Panama consists of two iron and steel rolling mills, an aluminum extrusion plant, and numerous small shops producing metallic consumer durables.

Production of iron and steel is confined to one 10,000 ton capacity steel rolling mill owned by Acero Panama S.A. Apart from a small amount of local scrap iron, all steel bars, plates, and ingots used by the plant are imported. The principal product, steel reinforcing rods for the construction industry, meets the requirements of the domestic market. Some small shapes as well as barbed wire, staples, and cyclone fencing also are produced. A second steel plant, Productora de Acero y Afines Asocida S.A., is to initiate operations by early 1967. Production capacity of this plant will approximate 100,000 tons annually, or ten times the country's present level. The company plans to export most of its output to Jamaica and Central America.

Other domestic users of iron and steel products are small companies producing prefabricated components for the boat building industry, and home repair items. A new company manufactures metal furniture, files, and cabinets.

Panama's single aluminum extrusion plant, Aluminio de Panama S.A., produces aluminum tubing, conduit pipes, frames, jalousies, panels, and roofing materials from imported ingots and billets. In 1965 the company installed an aluminum anodizing facility. Several firms manufacture aluminum products, such as cylinders for bottled gas, valves, and bottle caps.

4. Nonmetallic Products

The value-added of the nonmetallic products industry is equal to 7 percent of total industrial output. Panamanian industries based on minerals nonmetallic/include two cement plants, one clay plant, sand and gravel operations, and one glass factory. Portland cement production increased by one-third in 1965 to 165,325 metric tons. The producer, Cemento Panama S.A., has a capacity of 630 tons per day and plans to nearly double its capacity in 1967. Limestone is procured locally but gypsum and anthracite are imported. In addition to cement, the plant produces asbestos cement sheets (Panalit) for floors and roofing, using Canadian asbestos, and an insulating material (Fibrolit) made from shredded wood and cement. A second cement plant, Cemento Atlantico S.A. will initiate operations

in the fall of 1966. Capacity will be 600 tons per day, part of which will be exported. A satellite industry, Concreto S.A., produces concrete pipes, forms, and ready mixed construction concrete.

The principal clay products manufacturer, Cia. de Productos de Arcilla S.A., produces structural clay products, sanitary wear, glazed wall tile, ceramic floor tiles, and other vitreous products. Clay and shale are extracted locally while kaolin, pyrophyllite, and talc are imported. In addition, there are numerous small brick and tile producers throughout the country. Sand and gravel production for the local construction industry is undertaken by both the government and private firms. During 1965 approximately 200,000 cubic yards were produced.

Approximately 11,000 metric tons of salt were produced by the Panamanian government in 1965. Salt is recovered from sea water by natural evaporation. Specialized salts such as iodized salt and rock salt are imported. Panama also has one crystal manufacturer producing multi-colored murano glassware.

5. Refining

Panama's largest single industrial establishment, representing an investment of \$30 million, is the oil refinery, Refineria Panama S.A. The value-added of petroleum products in 1965 amounted to \$6.9 million or 7 percent of Panama's manufacturing output. Initiating operations in 1962,

the facility has a production capacity of 55,000 barrels a day, utilizing imported crude oil from Venezuela and Colombia. In 1965 the company processed 16.9 million barrels (42 gallon size), an increase of nearly 40% over 1963, the first full year of operation.

Ownership at present is exclusively by U.S. interests but British interests are to acquire a one-third ownership by 1969. Employees number 365 of which more than 90 percent are Panamanians. The Company was granted a 25 year period of liberal tax benefits. Import duties on crude oil in 1965 totaled only \$169,000, or 1¢ per 42 gallon barrel. Some refined products such as lubricating oils, propane, aviation gasoline, and some fuel oils continue to be imported.

6. Other Industries

Panama produces a narrow range of chemical products and relies on foreign suppliers for industrial and synthetic organic chemicals. One local firm produces oxygen, nitrogen, acetylene for welding, and carbon dioxide for use by the beverage plants. Discussions are under way to establish a small basic chemical plant to produce chlorine, sulfuric acid, and aluminum sulphate. Two U.S. subsidiaries, using imported raw materials, supply about one-third of Panama's requirements for paints and varnishes. Imported plastic materials supply the small plastic industry which has facilities for injection molding, extrusion of PVC pipe, blow molding,

polyethylene tubing, and plastic laminates. The small pharmaceutical industry is limited to mixing operations. All chemical fertilizers must be imported.

Panama has at least 36 saw mills but only those near Panama City are of commercial significance. The largest saw mill, Plywood de Panama, S.A., produces plywood, veneers, and railroad ties. A small plant processes mangrove bark for tanneries. There are no paper mills in Panama, although several paper converting plants manufacture cardboard and paper containers, stationery, wax paper, sanitary tissue, and paper cups. The rubber industry is limited to several tire recapping shops.

7. Home Industries

The poor distribution system of commercially produced consumer goods has fostered a large number of small cottage industries in rural areas. In 1960 approximately 15,000 homes sold some type of product in their immediate area. These goods generally are manufactured by members of the family and involve no capital equipment. Figure 7 shows the number of cottage industries by type of output. Nearly 90% produced some form of food, beverage, or clothing. Other cottage industries produced crude furniture, soap, pottery, and metal goods.

Figure 7 shows the percentage of cottage industries by province. Panama Province, where most of the nation's commercial industrial firms are located, ranks near the bottom in number of cottage industries.

D. Construction

The construction industry in Panama consists of many small operators and a few large enterprises complete with their own engineering, transportation, and equipment facilities. In addition, foreign firms frequently are contracted to complete major foreign-financed public works projects.

After declining in 1964 as a result of political difficulties, the construction industry expanded by 16.4% in 1965 and contributed nearly \$33 million to GDP. As shown below, the value added of construction activities

(Millions U.S. dollars, 1960 prices)

| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966 (Est)</u> |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|
| Total Value Added | \$22.9 | 26.4 | 27.2 | 30.4 | 28.1 | 32.7 | 35.3 |
| Percent of GDP | 5.5% | 5.8 | 5.5 | 5.6 | 4.9 | 5.3 | 5.3 |
| Percent change | -- | -15.3% | +3.0 | +11.8 | -7.6 | +16.4 | +8.0 |

in 1965, as a percent of GDP, was slightly less than it was in 1960-63.

The government has encouraged private sector investment by enacting in 1960 a law granting real estate tax exemptions for five year on new construction. The value of building permits issued in 1965 for private construction showed an increase of 9.3% from the previous year. The value of new construction in 1966 is expected to surpass the record year of 1963. Seventeen of every twenty permits issued is for construction in Panama City.

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This
/ratio has not changed significantly since 1960. Only one-tenth of all

permits issued in 1965 were for non-residential construction, amounting to 23% of the total value. In David, however, nearly 40% of new construction (by permit value) was for non-residence structures.

F. Dependence on Foreign Suppliers

Panama is dependent upon foreign suppliers for a significant portion of its industrial raw materials and finished consumer and capital goods. Panamanian statistics on imports do not normally distinguish between raw materials and finished goods. The latest detailed statistics for imports are given in Table 20 for 1963.

Imports in 1963 classified as raw materials represent less than 30 percent of total imports. Excluding imports of crude petroleum, raw material imports totalled only \$14 million, or 11 percent of total imports. The most important are wheat, tobacco, metals, and chemicals. The limited size of raw material imports, coupled with the paucity of domestic raw materials and the high level of finished goods imports, is indicative of Panama's small industrial base.

The consumer preferences of 5,000 U.S. residents in Panama, 12,000 U.S. citizens plus military forces in the Canal Zone, and foreign tourists have exerted an important influence on imports of consumer goods. Panama's dependence on foreign suppliers also is evident in the commercial sector. In 1965 nearly 600 firms specialized in import-export operations,

Table 20

Panama: 1963 Imports by Industrial Classification a/

| | Million US \$ | | |
|--------------------------|---------------|-----------------|--------------|
| <u>Classification</u> | <u>Raw b/</u> | <u>Finished</u> | <u>Total</u> |
| Food, beverage, tobacco | 4.2 | 13.2 | 17.4 |
| Footwear and clothing | 1.5 | 18.6 | 20.1 |
| Furniture and fittings | -- | .8 | .8 |
| Wood and lumber products | .4 | .3 | .7 |
| Leather products | neg. | .4 | .4 |
| Chemicals | 2.3 | 12.9 | 15.2 |
| Non-metals | .1 | 4.2 | 4.3 |
| Rubber | .1 | 2.7 | 2.8 |
| Paper products | neg. | 8.6 | 8.6 |
| Petroleum products | 33.0 | 4.6 | 37.7 |
| Metal products | 5.6 | 8.1 | 13.7 |
| Machinery and transport | -- | 31.3 | 31.3 |
| Others | <u>.1</u> | <u>9.9</u> | <u>10.0</u> |
| Total | 47.4 | 115.6 | 163.0 |

a. Totals may not add due to rounding.

b. Includes manufactured goods that require additional processing.

the second largest group after grocery stores. Their combined capitalization of \$11 million is second among all commercial groups.

F. Role of Government in Industry

The government of Panama has limited its activities in the industrial sector to the encouragement of private investors and the protection of infant industries. The only direct government involvement in industry is in salt and alcohol production and in the extraction of sand and gravel for its own use.

Legislation establishing the Industrial Development Law was enacted in 1957 and has been responsible for the initial impetus to industrialization. The law grants liberal duty and tax benefits in regard to the investment and profits of qualified industrial enterprises. Under this law, for example, the petroleum refinery was granted exemptions from most taxes for a period of 25 years.

An import quota system to protect local manufacturing firms dates from 1962 and now covers more than 125 items. A special commission composed of government and private representatives operates under the Office of Price Control and is authorized to establish, revise, and rescind import quotas for any specific item. Typical restricted items include food and beverages, leather products, garments and apparel, barbed wire and steel products, and soaps and detergents.

Three private institutions supplement the efforts of the government in fostering industrial growth. Financed largely by foreign aid, the Panamanian Development Institute (InPaDe) offers technical assistance to industry as a complement to the relatively ineffectual government Industrial Development and Productivity Center (IDPC). A private group has established with AID funds the Industrial Development Bank (Banco de Desarrollo Industrial-- DISA) to provide credit for industrial expansion. The National Council of Private Enterprise (CONEP) also sponsors a variety of industrial development programs.

IV. Fiscal and Monetary Structure

The use of the U.S. dollar as legal tender has imposed a sufficient degree of fiscal and monetary discipline on the Panamanian economy to permit the rapid rate of growth since 1960 to^{be} achieved without serious inflationary pressures.

Ordinary budget expenditures of the central government, which include some investment, exceeded revenues by 7 percent cumulatively from 1960 through 1964 but in 1965 a small surplus was achieved. A consolidated current account budget for the entire public sector, however, shows a considerable surplus for the period. This surplus together with domestic and foreign borrowing has been used by the government to finance its public investment program.

Domestic and foreign borrowing have greatly increased debt servicing requirements -- equal to 14 percent of ordinary expenditures in 1965. If rising tax revenues resulting from new legislation and improved tax administration are not dissipated on additional operating expenditures, these debt service payments should not seriously limit the ability of the central government to expand moderately its public investment programs.

Very little control is exercised by the central government over the banking system. The rate of credit expansion, which averaged 12 percent

per year during 1961-65, is largely dictated by the size of deposits and the practices of individual foreign-owned banks.

A. Public Finance

Total expenditures of the public sector, including current operating expenditures and public investment, average about 25 percent of gross domestic product (GDP) annually. The public sector consists of the central government, about 20 autonomous agencies of the central government, and the municipal governments. Of total expenditures by the public sector, about 67 percent is accounted for by the central government, 30 percent by the autonomous agencies, and the remaining 3 percent by the municipal governments.

Central government revenues, which are derived almost entirely from taxes, account for about 75 percent of total revenues of the public sector. Revenues of the autonomous agencies and the municipalities, which account for 25 percent of total revenues, are derived from social security contributions, the sale of goods and services, interest on loans, local license taxes, and grants from the U.S. government.

In recent years, the public sector as a whole has produced significant budget surpluses in its current accounts. These surpluses, together with borrowing from foreign and domestic sources, have been used to finance public investment programs. Total public investment and the

sources of its financing for the years 1960-65 are shown in Table 21 .

As a result both of a 1964 tax reform which increased revenues from income taxes and of efforts to trim current operating expenditures, the share of public investment financed by the ^{current account surplus of the} public sector rose sharply from 37 percent during 1961-64 to 60 percent in 1965. If pressures for increased operating expenditures can be controlled, rising tax revenues should permit the government to continue to expand public sector investment expenditures.

1. Central Government Budgets

In theory the central government of Panama has two budgets:

(1) an ordinary budget for noninvestment expenditures financed with taxes and other current revenues, and (2) an extraordinary budget for investment expenditures financed with long-term borrowing. In practice, however, the ordinary budget, prepared annually on a calendar year basis, includes some investment expenditures and part of the ordinary budget is financed by long-term borrowing when short-term floating debts are refunded. An extraordinary budget as such does not exist as expenditures are authorized separately in a series of projects. Moreover, not all extraordinary expenditures are used for investment purposes.

The ordinary budget is prepared by the Budget Office, which is subordinate to the Office of the President of the Republic, and submitted to the Cabinet. The budget approved by the Cabinet is submitted to the

Table 21
Panama: Total Investment by the Public Sector and
the Sources of its Financing
1960-65

Million US \$

| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Total public investment | <u>11.4</u> | <u>21.3</u> | <u>25.0</u> | <u>27.7</u> | <u>26.1</u> | <u>29.4</u> |
| Central government | 4.8 | 11.1 | 12.7 | 20.4 | 13.7 | 14.2 |
| Autonomous agencies | 6.1 | 9.8 | 11.8 | 6.9 | 11.9 | 14.7 |
| Municipalities | 0.5 | 0.4 | 0.5 | 0.4 | 0.5 | 0.5 |
| Total financing | <u>11.4</u> | <u>21.3</u> | <u>25.0</u> | <u>27.7</u> | <u>26.1</u> | <u>29.4</u> |
| Current account surplus of the three levels of government <u>a/</u> | 4.8 | 9.6 | 7.7 | 11.3 | 8.2 | 17.8 |
| Net external financing <u>b/</u> | 7.3 | 3.0 | 5.6 | 22.6 | 9.3 | 8.0 |
| Net internal financing <u>b/</u> | 1.2 | 11.6 | 2.2 | -0.4 | 3.7 | 1.9 |
| Net increase in floating debt <u>b/</u> | 2.9 | -6.2 | 2.1 | 7.5 | 5.7 | -1.4 |
| Changes in cash balances | -1.8 | 5.7 | -1.1 | -3.6 | 1.5 | -1.7 |
| Seigniorage | none | 0.3 | 0.5 | none | none | none |
| Statistical discrepancy <u>c/</u> | -3.0 | -2.7 | 8.0 | -9.7 | -2.3 | 4.8 |

- a. Includes non-current revenues such as ^{those} from the sale of land.
- b. Minor differences between these entries and the changes in debt outstanding shown in Table 24 are due to rounding.
- c. The negative discrepancies are attributable in part to the use of some financing for non-investment purposes.

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National Assembly in October. The budget passed by the National Assembly is sent to the President for his signature or rejection. If a budget has not been signed into law by the end of the year, the previous year's budget remains in force.

The Comptroller General, who is responsible to the National Assembly, has preaudit and postaudit control of expenditures, including expenditures of autonomous agencies and municipalities. The Comptroller General also may reduce budget expenditures in the event of insufficient funds.

a. Ordinary Budget Revenues

Tax revenues account for nearly 80 percent of total ordinary revenues of the central government, with revenues from the operation of public services and state enterprises providing the remainder. As shown in the following tabulation, tax revenues as a percent of GDP increased in 1962 and again in 1965. The increase in

Tax Revenues as a Percent of GDP

| | |
|------|------|
| 1960 | 11.1 |
| 1961 | 10.9 |
| 1962 | 11.6 |
| 1963 | 11.0 |
| 1964 | 11.1 |
| 1965 | 11.8 |

1962 resulted from a rise in income tax rates, the benefits of which were short-lived apparently because of ineffective administration. The increase of tax revenues in 1965 followed the 1964 overhaul of tax rates and tax administration.

As a source of revenue, consumption taxes have shown the greatest growth in recent years, increasing from 9 percent of total tax revenues in 1960 to 15 percent in 1965. As a result of increased rates and improved administration, income tax revenues have shown the second greatest rate of growth. In 1965, income tax revenues accounted for 26 percent of total tax revenues as compared with 18 percent in 1960. Revenues from ^{import} taxes have declined in importance from 34 percent of total tax revenues in 1960 to 22 percent in 1965. This change has been the result of an increasing number of exemptions on imports of industrial raw materials and equipment. (Ordinary revenues of the central government for the years 1960-65 are shown in Table 22 .) If current efforts to improve the administration and collection of taxes are sustained, tax revenues should show a greater degree of responsiveness to changes in GDP. In the first nine months of 1966, tax revenues were 18 percent greater than in the corresponding period in 1965, whereas ordinary expenditures increased 13 percent.

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Table 22

Panama: Ordinary Revenues of the Central Government
1960-65 a/

| | Million US \$ | | | | | |
|---------------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
| Indirect taxes | <u>29.4</u> | <u>31.8</u> | <u>34.6</u> | <u>36.3</u> | <u>36.6</u> | <u>41.2</u> |
| Taxes on foreign commerce | <u>20.7</u> | <u>22.3</u> | <u>23.4</u> | <u>21.0</u> | <u>20.0</u> | <u>22.7</u> |
| Import duties | 19.4 | 20.7 | 21.5 | 18.2 | 17.2 | 19.4 |
| Consular fees | 1.1 | 1.4 | 1.7 | 2.5 | 2.5 | 2.9 |
| Export and re-export taxes | .2 | .2 | .2 | .3 | .3 | .4 |
| Taxes on consumption and transactions | <u>8.7</u> | <u>9.5</u> | <u>11.2</u> | <u>15.3</u> | <u>16.6</u> | <u>18.5</u> |
| Consumption taxes | 5.5 | 5.8 | 7.0 | 9.8 | 11.6 | 13.2 |
| License fees | 1.5 | 1.4 | 1.4 | 1.0 | 1.0 | 1.7 |
| Stamp taxes and other | 1.7 | 2.3 | 2.8 | 4.5 | 4.0 | 3.6 |

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Table 22

Panama: Ordinary Revenues of the Central Government
1960-65 a/
(continued)

| | Million US \$ | | | | | |
|----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
| Direct taxes | <u>13.7</u> | <u>14.5</u> | <u>18.7</u> | <u>19.7</u> | <u>22.5</u> | <u>26.7</u> |
| Income tax | 10.7 | 10.7 | 14.9 | 15.5 | 18.5 | 22.2 |
| Property tax | 2.7 | 3.2 | 3.5 | 3.8 | 3.9 | 4.3 |
| Inheritance and gift taxes | .3 | .6 | .3 | .4 | .1 | .2 |
| Other revenues | <u>14.8</u> | <u>16.2</u> | <u>13.8</u> | <u>15.1</u> | <u>16.5</u> | <u>18.6</u> |
| Public services | 5.9 | 6.1 | 4.0 | 3.9 | 4.6 | 4.6 |
| Monopolies and enterprises | 7.1 | 8.4 | 8.8 | 9.7 | 10.8 | 11.9 |
| Other | 1.8 | 1.7 | 1.0 | 1.5 | 1.1 | 2.1 |
| Total current revenues | <u>57.9</u> | <u>62.5</u> | <u>67.1</u> | <u>71.1</u> | <u>75.6</u> | <u>86.6</u> |

a. Because of rounding, components may not add to the total given.

b. Ordinary Budget Expenditures

The largest categories of expenditures in the ordinary
(See Table 23)
budget are for education and for labor, social welfare, and public health./

Ordinary expenditures expanded sharply during 1961-65 as a result of increases in wages and pensions and other remuneration of government employees and from increased public investment expenditures. The excess of expenditures over revenues in the ordinary budget up to 1965 was financed by long term borrowing when short term floating debts were refunded.

The rapid growth of expenditures for debt services, which increased from 7 percent to 14 percent of total ordinary expenditures between 1960 and 1965, reflects the use of long-term borrowing to finance a considerable share of public investment as well as the deficit in the ordinary budget.

2. Public Debt

The cumulative deficit of the public sector resulting from public investment and from deficits in the ordinary budget has been financed by net increases in outstanding debt. Of total outstanding debt in 1965, 53 percent is accounted for by external funded debt 36 percent by internal funded debt, and 11 percent by

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Table 23

Panama: Ordinary Expenditures of the Central Government
1960-65 a/

| | Million US \$ | | | | | |
|---|---------------|-------------|-------------|-------------|-------------|----------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965 b/</u> |
| Education | 13.7 | 16.1 | 17.6 | 19.5 | 20.7 | 21.2 |
| Labor, Social Welfare and Public Health | 12.6 | 12.5 | 12.2 | 12.7 | 12.5 | 12.2 |
| Judiciary and general government | 9.6 | 10.1 | 10.6 | 12.0 | 10.4 | 13.6 |
| Public Works | 6.5 | 6.7 | 6.8 | 7.9 | 7.2 | 7.0 |
| Agriculture, Commerce, and Industry | 1.8 | 1.6 | 2.1 | 2.3 | 2.8 | 3.4 |
| University of Panama | 1.1 | 1.1 | 1.4 | 1.6 | 2.2 | 2.4 |
| Finance and Treasury | 1.7 | 1.8 | 2.0 | 2.1 | 2.1 | 2.2 |
| Election Court | 1.5 | .4 | .4 | 1.0 | 1.8 | .5 |
| Comptroller General | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 | 1.7 |
| Legislature | .9 | 1.0 | 1.2 | 1.3 | 1.3 | 1.3 |

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Table 23

Panama: Ordinary Expenditures of the Central Government
1960-65 a/
(continued)

| | Million US \$ | | | | | |
|-----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 b/ |
| Foreign Affairs | 1.2 | 1.2 | 1.2 | 1.1 | 1.2 | 2.0 |
| Subtotal | <u>52.0</u> | <u>53.9</u> | <u>57.0</u> | <u>63.0</u> | <u>63.7</u> | <u>67.5</u> |
| External debt service | 1.8 | 2.2 | 2.8 | 3.4 | 4.4 | 5.6 |
| Internal debt service | 2.8 | 2.7 | 3.1 | 3.7 | 5.2 | 6.8 |
| Other c/ | 6.8 | 7.7 | 4.4 | 8.5 | 7.5 | 6.7 |
| Subtotal | <u>11.4</u> | <u>12.6</u> | <u>10.3</u> | <u>15.6</u> | <u>17.1</u> | <u>19.1</u> |
| Total ordinary expenditures | <u>63.4</u> | <u>66.5</u> | <u>67.3</u> | <u>78.6</u> | <u>80.8</u> | <u>86.6</u> |

a. Because of rounding, components may not add to the totals given.

b. Planned budget. Realized expenditures were \$300,000 less than planned.

c. Includes transfers to autonomous agencies.

floating debt During 1961-65, the proportion of debt owed to external creditors increased in relation to both internal funded and floating debt. International lending agencies recently have expressed concern over Panama's ability to support further increases in foreign debt. The principal foreign creditors are agencies of the U.S. government, the International Bank for Reconstruction and Development, the Inter-American Development Bank, and private bond holders. The outstanding debt of the central government for the years 1960-65 is shown in Table 24 .

Prior to 1965, the tax revenue system was not sufficiently elastic to keep pace either with the growth of GDP or with the growth of operating expenditures. The chronic deficit in the ordinary budget produced an increase in unpaid commitments for goods and services and other floating debt that was reduced only by recourse to periodic conversions into external and internal funded debt. The successive bond issues resulting both from conversion of the floating debt and from the direct long term domestic financing of public investment led to a saturation of the bond market, to increasing discounts on bond prices, and to increased difficulty in domestic financing of public investment. In 1965, however, the effects of the 1964 tax reform together with a firm government policy to avoid a deficit in the ordinary budget increased the amount of revenue available for public investment and enabled the government to limit domestic bond issues to an amount that could be readily absorbed by the market.

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Table 24

Panama: Outstanding Debt of the Public Sector
1960-65 a/

| | Million US \$ | | | | | |
|-----------------------------|---------------|------|-------|-------|-------|-------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
| Funded debt | | | | | | |
| External debt | | | | | | |
| Autonomous agencies | | | | | | |
| Central government | 36.4 | 38.9 | 42.1 | 58.0 | 60.6 | 62.2 |
| US Export-Import Bank | 5.9 | 8.1 | 7.4 | 10.8 | 10.7 | 11.2 |
| US/AID | 5.0 | 5.0 | 6.9 | 8.7 | 11.3 | 13.0 |
| IBRD | None | 0.7 | 3.1 | 5.1 | 5.7 | 5.6 |
| IDB | None | None | None | None | None | 0.1 |
| National Bank of Washington | None | None | None | 0.1 | 0.1 | 0.1 |
| Other private bond holders | 25.5 | 25.1 | 24.7 | 33.3 | 32.8 | 32.2 |
| Internal debt b/ | 35.5 | 47.2 | 49.4 | 52.0 | 54.4 | 55.5 |
| Government bonds | 28.6 | 46.4 | 48.8 | 51.6 | 53.3 | 54.9 |
| Loans | 6.9 | 0.8 | 0.6 | 0.4 | 0.2 | None |
| Other | None | None | None | None | 0.9 | 0.6 |
| Floating debt c/ | 15.4 | 2.1 | 8.5 | 16.0 | 17.6 | 16.3 |
| Total outstanding debt | 87.3 | 95.7 | 104.3 | 135.7 | 148.4 | 153.7 |

a. End of year

b. Owed by central government only.

Includes debt owed to the Social Security Institute.

c. Owed by central government only.

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B. Money and Banking

1. Financial Institutions

a. Banks

The banking system consists of two state-owned banks, a dozen or so subsidiaries of privately-owned foreign banks, a small number of locally-owned banks, and their branches. Panama has no central bank but the state-owned National Bank of Panama functions as the official depository and fiscal agent of the government in addition to its commercial operations. The second state-owned bank is the Savings Bank which grants loans on real estate and other tangible property.

The privately-owned foreign banks, most of which are U.S. owned, do most of the commercial banking business in Panama. As a result of the country's economic growth and the lack of difficulties with currency conversion, the number of foreign-owned banks in Panama has been increasing in recent years.

The banking system has played an important role in Panama's economic growth by providing a strong uninterrupted expansion of domestic loans. Reflecting the expansion of loans, deposits also have grown rapidly, suffering only a temporary setback as a result of political disturbances in early 1964. Total deposits and loans of the banking system for the years 1960-65 are shown in Table 25 .

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Table 25
Panama: Deposits and Loans of the Banking System.
1960-65 a/

| | Million US \$ | | | | |
|-------------------------------------|---------------|--------------|--------------|--------------|--------------|
| | 1960 | 1961 | 1962 | 1963 | 1964 |
| Total deposits | <u>114.2</u> | <u>113.2</u> | <u>129.9</u> | <u>152.4</u> | <u>173.7</u> |
| Deposits by non residents | <u>30.8</u> | <u>29.0</u> | <u>33.4</u> | <u>32.5</u> | <u>37.5</u> |
| Deposits by private domestic sector | <u>66.5</u> | <u>73.2</u> | <u>84.3</u> | <u>104.1</u> | <u>120.2</u> |
| Sight deposits | <u>38.1</u> | <u>41.7</u> | <u>46.1</u> | <u>53.0</u> | <u>50.9</u> |
| Time and saving deposits | <u>28.4</u> | <u>31.5</u> | <u>38.2</u> | <u>51.1</u> | <u>69.3</u> |
| Deposits by government | <u>16.9</u> | <u>11.0</u> | <u>12.2</u> | <u>15.8</u> | <u>16.0</u> |
| Central government | <u>11.9</u> | <u>7.9</u> | <u>8.7</u> | <u>8.2</u> | <u>10.2</u> |
| Autonomous agencies | <u>5.0</u> | <u>3.1</u> | <u>3.5</u> | <u>7.6</u> | <u>5.8</u> |
| Total loans and investments | <u>107.1</u> | <u>115.3</u> | <u>127.2</u> | <u>145.8</u> | <u>186.7</u> |

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Table 25

Panama: Deposits and Loans of the Banking System
1960-65 a/
(continued)

| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
|--|---------|------|-------|-------|-------|-------|
| Loans to private sector | 91.7 c/ | 93.5 | 101.9 | 119.0 | 134.7 | 164.4 |
| Loans to government | 0.7 | 4.1 | 6.1 | 5.8 | 2.3 | 8.3 |
| To central government b/ | 0.7 | 2.2 | 3.4 | 3.2 | 5.6 | 3.3 |
| To autonomous agencies | none | 1.9 | 2.7 | 2.6 | 3.7 | 5.0 |
| Loans and investments to foreign countries | 14.7 | 17.7 | 19.2 | 21.0 | 11.6 | 14.0 |

a. End of year.

b. Includes discounts of treasury bills and other short term government debt.

c. Includes discounts of short-term treasury bills.

As a result of Panama's use of the U.S. dollar as its legal tender and the use of numbered accounts patterned on Swiss banking laws, sizeable deposits by foreign nationals are held by the Panamanian banking system. A considerable share of these deposits are reinvested in other countries but, by adding to the reserves of Panamanian banks, they have aided in Panamanian economic expansion. On the other hand, deposits by nonresidents are especially vulnerable to political disturbances. For example, the 1964 decline in total deposits was caused by the sudden withdrawal of about one-third of the deposits of nonresidents following the riots in early 1964.

b. Other Credit Institutions

In addition to commercial banks, Panama has a variety of other credit institutions, including a half dozen or so autonomous agencies of the government that grant loans for specific purposes and forty-odd small savings and loan institutions that grant small loans to their members. The most important of the autonomous government agencies is the Social Security Institute (CSS) which is authorized to purchase government bonds and to grant loans to industry and for housing up to 10 percent of its assets. Other autonomous agencies include the Institute of Economic Development (IFE) which, together with its subsidiary, the Industrial Development Center, grants small loans to agriculture and industry; the

Housing and Urbanization Institute (IVU) which grants loans for construction of inexpensive housing; and the People's Credit Bank, which offers consumer loans to low income groups. Except for the CSS, most of these autonomous agencies rely on foreign loans and subsidies from the central government.

2. Trends in Money and Credit

a. Money

Panama has no bank of issue and the Panamanian unit of currency, the balboa, exists only in the form of silver and subsidiary coins. The U.S. dollar has the status of legal tender and circulates freely in the country on the basis of a 1904 monetary agreement with the United States. The agreement limits the issue of balboa coins to the equivalent of \$1.5 million, while the constitution explicitly forbids the issuance of paper currency. No records of the amount of U.S. currency in circulation are available.

b. Credit

During 1961-65, domestic credit extended to the private sector expanded sharply, averaging almost 12 percent annually. This expansion of credit was supported/both by domestic deposits and deposits of foreign nationals. A large drain on banking resources caused by the withdrawal of deposits of foreign nationals following the 1964 political

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disturbances was made up by external borrowing by the banks and by their use of foreign and domestic reserves, thus enabling banks to continue credit expansion in that year.

The sharp increase of bank credit in 1965 and the first half of 1966, however, reduced the liquidity position of the banking system. By mid-1966, banks were forced to raise interest changes to the full statutory maximum of 7 percent, to reduce loan maturities, and to become increasingly selective in extending credit. In turn, the tightness of credit produced upward pressure on interest rates paid on deposits, bringing them up to the legal maximum, which for most types of savings deposits is 3 percent. The present tightness of credit will be eased if deposits continue to grow, but the pace of credit expansion probably will be below that of 1965-66. Deposits and loans of the banking system for the years 1960-65 are shown in Table 25.

The National Assembly recently has considered raising the 7 percent interest change on loans but

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no action yet has been taken. In November 1966 the National Assembly enacted legislation establishing a new national banking commission to regulate banking operations but retaining the power to set interest rates as a prerogative of the Assembly.

V. Transportation

A. Highways

The highway network in Panama (shown on the map, Figure 8) is the most important transportation system in the country. The main arteries are the Inter-American Highway, which runs between Panama City and the Costa Rican border, and the Trans-Isthmian Highway between Panama City and Colon. A section of the Inter-American Highway is still under construction in Panama, but it is scheduled to be completed in August 1967. Survey work is under way on the projected Pan-American Highway from Panama City to the border of Colombia.

In 1964 there were 3,875 miles of roads in Panama. Of this total, 337 miles were concrete, 367 were asphalt, 779 miles were gravel, and 2,392 were dirt. Most of the roads require extensive maintenance because of heavy rainfall and high temperatures. Dirt roads are essentially dry-weather roads, and more than two-thirds of all dirt roads must be rebuilt annually.

The number of vehicles registered in Panama is given in Table 26. Of the nearly 37,000 vehicles registered in 1964, about 65 percent were in the city and province of Panama, 11 percent were in Chiriqui Province, and 8 percent were in the city and province of Colon.

Table 26

Panama: Number of Vehicles*
 1964-65

| Type | 1964 | Estimated 1965 |
|----------------|--------|-------------------|
| Passenger cars | 27,259 | 30,000 |
| Trucks | 7,463 | 8,200 |
| Buses | 2,038 | 2,200 |
| Others | 105 | 120 |
| Total | 36,865 | 40,520 |

* Excludes vehicles registered in the Canal Zone and vehicles under special registration.

B. Railroads

There are three small railroads in Panama, with a total of 157 route miles of track, operating in three separate areas -- the Canal Zone, northwestern Panama, and southwestern Panama (see the map, Figure 8).

The Panama Railroad, owned by the Panama Canal Company, has 48 route miles of 5-foot gauge track between Panama/^{City}and Colon. From July 1963 through June 1964 this line transported 600,000 passengers and hauled 183,000 tons of freight across the Isthmus. The Chiriqui National Railroad (Ferrocarril Nacional de Chiriqui), owned by the Panamanian government, has 71 route miles of 3-foot gauge track. Its main route is from David to Puerto Armuelles, a deepwater port on the Pacific coast.

The Chiriqui Land Company, Bocas Division, operates 38 routes miles of 3-foot gauge track in northwestern Panama. This line connects plantations in the interior to the Caribbean port of Almirante.

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C. Merchant Marine

On the basis of deadweight tonnage, Panama has the eighth largest merchant fleet registered for international trade. At the end of 1965, 564 ships of 1,000 gross tons or larger were under Panamanian registry with an aggregate weight of 4,653,000 gross register tons or 7,228,000 deadweight tons. Of these ships, 351 were freighters, 151 tankers, 35 bulk carriers, 18 combination passenger and cargo carriers, and 9 refrigerated freighters. This large merchant fleet is the product of liberal registry and tax laws that attract shipowners to use Panama as a flag-of-convenience.

The government of Panama derives about \$1.5 million annually from Panama-flag ships in the form of consular and registry fees and ship tonnage tax. (These revenues reportedly would be higher if the corrupt practices of Panamanian consuls abroad were corrected) In addition to these direct revenues, the economy benefits from attorney fees for the incorporation of Panama ship-owning companies and legal work involved in the purchase, registration, and mortgaging of Panama-flag ships. The merchant fleet is not an important source of employment for Panamanian nationals.

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Panama's domestic trade fleet is composed of about 100 merchant ships of from 100 to less than 1,000 gross tons that are engaged in local and intercoastal trade. Most of these ships operate out of Panama, Colon, Puerto Armuelles, and Bocas del Toro. There also are some 200 shrimp boats operating out of Panamanian ports.

D. Civil Aviation

The Panamanian government does not own or operate any civil airline. It controls and regulates civil aviation through the Department of Civil Aeronautics in the Ministry of Government and Justice. Major air carriers such as KLM, Pan Am, Braniff, Viasa, LAN-Chile, Varig, and Avianca provide international air service from Tocumen National airfield to most other nations in the Western Hemisphere and Europe. Scheduled Panamanian air carriers are Panama Aeronautica, S.A., Compania Panameña de Aviacion, S.A. (COPA), and Aerovias Panama Airways (APA). Panama Aeronautica, reportedly partly owned by U.S. interests, operates a scheduled air service to Miami using a DC-7B, its only aircraft. COPA provides domestic service from Panama to David, Puerto Armuelles, Changuinola, and Bocas del Toro, and one international flight to San Jose, Costa Rica. Its aircraft consist of two DC-3's, two C-46's, and one Martin 404. Pan Am holds a 33 percent interest in COPA and Panamanian interests the remainder. The

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Panamanian air carrier, APA, currently is in serious financial trouble.

In August 1966, Braniff made a proposal to take over APA's routes, with the Braniff supplying 40 percent of the capital and remainder to be raised by stock sales to the public. APA's routes had included flights to Miami, Guayaquil, Barranquilla, Bogota, Maracaibo, Caracas, and Lima.

In addition to these scheduled air carriers, there are ten or more Panamanian companies engaged in charter and nonscheduled air passenger and cargo service. Some of these companies, as well as other private aircraft, are believed to engage in illegal shipments of cargo to neighboring countries.

VI. Communications

A. Role of Government and Adequacy of Communications Services

All newspapers and radio and television stations in Panama are privately owned. Frequency authorizations for radio and television stations are granted by the National Radio Commission, which is subordinate to the General Administration of Post Offices and Telecommunications, Ministry of Government and Justice. Very limited telephone and telegraph service is provided by the General Administration of Post Offices and Telecommunications to isolated communities. All other domestic and international telephone and telegraph facilities and services are operated by private companies under concessions granted by the government. Rates for these services reportedly are not set or regulated by the government.

Newspapers, radio, and television are important political vehicles in Panama, and communications concessions apparently have been used as a source of political patronage. Nevertheless, communications services available in Panama are well developed and adequate to meet the needs of the nation. Panama's domestic and international telephone service is one of the most modern in Latin America and can be expanded to meet future needs.

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Isolated communities in Panama are poorly served by telephone and telegraph facilities, but service probably is sufficient for the level of demand. Radio broadcasting coverage blankets the country but weak licensing controls have permitted an excessive number of fly-by-night stations. Television service is less extensive but better organized and probably more than adequate for the size of the potential listening audience, which is restricted by the cost of receivers and by the availability of electric power.

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B. Radio and Television Service

More than adequate radio broadcasting coverage of Panama is provided by about 90 privately owned radio stations.* Most of these stations are concentrated around the urban areas of Panama City (45 stations), Colon (15 stations), David (7 stations), Chitre (5 stations), and La Chorrera (3 stations). The most important radio networks are: Onda Popular (9 stations), Circuito RPC (8 stations), Radio Mia (7 stations), and Radio Aeropuerto (5 stations). Onda Popular and Circuito RPC both are owned by Fernando Eleta, the Foreign Minister of Panama and a member of the National Patriotic Coalition, and Carlos Eleta, also a member of the National Patriotic Coalition. Radio Mia is owned by Ramon Pereira, a member of the National Reformist Party, and Radio Aeropuerto is owned by Jacobo Salas, Jr., a member of the Panamenista Party. As these political affiliations would suggest, radio is an important medium for political propaganda. In 1965 there were an estimated 500,000 radio receivers in Panama. This figure probably is inflated but it indicates, nevertheless, that the ratio of radio receivers to population is high.

The following tabulation gives the number of hours weekly of short-wave Spanish language broadcasts beamed to Latin America by Communist countries

* An unknown number of these stations are not active. Excluded from this figure are two radio stations in the Canal Zone operated by the U.S. Armed Forces Radio and Television Service.

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in 1966:

| <u>Hours Weekly</u> | <u>Country of Origin</u> |
|---------------------|--------------------------|
| 155 | Cuba |
| 49 | USSR |
| 35 | Communist China |
| 25 | Czechoslovakia |
| 17 | Poland |
| 14 | North Korea |
| 12 | Hungary |
| 10 | Yugoslavia |

Not all of these broadcasts can be received in Panama, but a significant portion probably is audible. The number of radio receivers equipped to receive short-wave broadcasts is unknown but reportedly is high.

As shown in Table 27, there are two television networks and one independent television station in Panama broadcasting on seven channels. These stations provide adequate coverage to all the heavily populated areas of the country. The number of television receivers in 1965 was estimated at 100,000.

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Table 27

Panama: Television Networks and Stations*
1966

RPC-TV (Corporacion Panamena de Radiodifusion, S.A.)**

| | |
|----------------------|---------------------------------------|
| Channel 4 (HOHM-TV) | Las Cumbres (near Panama City) |
| Channel 6 (HOH4-TV) | Alto Quiel (near Boquete) |
| Channel 7 (HOF34-TV) | Cerro Italia (near Sona) |
| Channel 12 (HOHM-TV) | El Valle de Anton (in Cocle Province) |

Televisora Nacional (Televisora Nacional, S.A.)***

| | |
|----------------------|-------------------------------|
| Channel 2 (HOU34-TV) | Cerro Azul (near Panama City) |
| Channel 6 (HP5C-TV) | Cerro Bohio (Cocle Province) |

Tele-Baru****

| | |
|-----------------------|-------------------------------|
| Channel 10 (HOU31-TV) | Cerro Santa Cruz (near David) |
|-----------------------|-------------------------------|

* Not included are two television stations in the Canal Zone, one at Fort Clayton and the other at Fort Davis.

** Studios are at Avenida 11 and Calle 28 No. 10, Panama City. This corporation is owned by Carlos and Fernando Eleta, who also control the radio networks Circuito RPC and Onda Popular.

*** Network studios are in Panama City. Officers of Televisora Nacional are: Rodolfo Chiari (brother of ex-President Roberto Chiari), President; Roberto Aleman, Vice-President; Ricardo Chiari, Treasurer; and Carlos Arias, Secretary.

**** Tele-Baru is controlled by Ruben Dario Samudio and Manuel Ramon Guerra and reportedly is affiliated with Televisora Nacional.

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C. Newspapers

There are more than 20 newspapers in Panama. The most important

Panama City daily papers are listed below.

Panama City: Daily Newspapers

| <u>Name</u> | <u>Circulation 1964</u> | <u>Comments</u> |
|-------------------|-----------------------------|---|
| Critica | 22,000 | Ultrnationalistic, owned by Gilberto Arias. |
| El Dia | 7,000 | Conservative, owned by PR (Republican Party) Penso and Del Valle. |
| La Estrella | 18,000 | Conservative, reportedly owned by Duque family. |
| La Hora | 20,000 | Leftist, owned by Harmodio Arias. |
| El Panama America | 18,000 | Ultrnationalistic, owned by Gilberto Arias. English edition also published with circulation of 6,000. |
| La Prensa | 7,000 | Independent, owned by the Chiari family. |
| Expreso | n.a. | Ultrnationalistic, owned by Gilberto Arias. |
| El Mundo | n.a. | Moderate-conservative owned by David Samudio |

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D. Telephone and Telegraph Service

There has been a dramatic improvement in telephone service in Panama since Communications Incorporated (Comunicaciones, S.A.) was granted a 20-year concession in March 1961.* This concession included both long-distance telephone service and local telephone service in those areas not served by Panama Power and Light Company (Cia. Panameña de Fuerza y Luz, a subsidiary of American and Foreign Power Company, which is responsible for telephone service in Panama City and Colon). The first step taken by Communications Incorporated was the construction of a modern microwave radio relay line between Panama City and David in 1961-62.** A similar line was extended to Colon from Panama City in 1963.

As shown in Table 28, nearly 42,000 telephones were in use in Panama at the end of 1964. The ratio of 3.40 telephones per 100 persons in Panama _____ is among the highest in all of Latin America. About 95 percent of the telephones in the country are concentrated

* Communications Incorporated is a subsidiary of Empresas Electricas de Chiriqui, S.A. The family of ex-President Roberto Chiari, who was in office at the time the concession was granted, is reported to have an interest in Communications Incorporated.

** This microwave line probably will eventually serve as a segment of an Inter-American telecommunications network, which has been under discussion for a number of years. A step in this direction was taken on 30 June 1965 when a Presidential Decree was issued authorizing Communications Incorporated to enter into contracts with other American Republics to interconnect telecommunications systems.

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in Panama City, Colon, and David. With the exception of the 690 telephones operated by the General Administration of Post Offices and Telecommunications, all telephones are automatic and direct-distance-dialing service is available. Government-operated telephone and telegraph service is largely confined to isolated communities. This service, which is provided over open wirelines and by radio, is poor. Modern teleprinter telegraph service is available in Panama City, Colon, and David over facilities of Communications Incorporated.

International radiotelephone and radiotelegraph service is available to most areas of the world, and a 128-channel submarine telephone cable, which lands in the Canal Zone at Fort Sherman, connects Panama with Miami via Jamaica. An extension of this telephone cable, with a capacity of 80-telephone channels, to Cartagena, Colombia is planned for completion in 1966.

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Table 28

Panama: Number of Telephones
1961-64

| <u>Total*</u> | | <u>No. of telephones in major urban areas, 1964</u> | |
|---------------|--------|---|--------|
| 1961 | 32,586 | Panama City | 33,596 |
| 1962 | 35,954 | Colon | 4,713 |
| 1963 | 39,086 | David | 1,226 |
| 1964 | 41,658 | | |

* Includes 690 telephones operated by the General Administration of Post Offices and Telecommunications, and excludes the 9,385 telephones in the Canal Zone.

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E. Satellite Communications

Panama's application to join the Global Commercial Communications Satellite System (INTELSAT) was approved in May 1966. Its quota in this system will be .04 percent, costing about \$100,000. The Panamanian government has expressed an active interest in establishing the first earth station in Latin America for satellite communications. Several U.S. firms have made proposals to the government and to Communications Incorporated, a private Panamanian company, for the necessary facilities. No commitment has been made, however, nor has a decision been made as to whether a government ministry, Communications Incorporated, or a new private company will be given the concession. International Telephone and Telegraph Company (ITT) -- which already has a concession in Panama for international communications through its subsidiary All American Cables and Radio, Inc. -- has proposed to the Panamanian government that it finance, at a cost of \$5 million, and operate an earth station and pay the government an annual fee for the concession. In August 1966, ITT subsequently proposed to Communications Incorporated that a new company be formed (60 percent Panamanian interests and 40 percent ITT) for the

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construction and operation of a satellite earth station.*

An earth station for satellite communications in Panama would offer direct telephone, telegraph, and television circuits with North America and Europe, and eventually ^{with} Africa and South America. Access to the Panama earth station could be made available to the Central American republics and possibly Colombia and Venezuela. In addition to its prestige value, a satellite earth station would be the source of additional foreign exchange for the Panamanian economy.

* There are unconfirmed reports that Communications Incorporated is setting up a new company, called Intra-World Satellite Communications Company of Panama Inc. (Intra Mundial de Comunicaciones Via Satelites de Panama, S.A.), in collaboration with Panamanian television interests.

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VII. Domestic and International Trade

A. Domestic Trade

The three principal marketing areas in Panama are Panama City, Colon, and David and their surrounding regions. Panama City and Colon, because of their proximity to the Panama Canal, are strongly influenced by the foreign market. David, with the surrounding Chiriqui Province, is essentially an agricultural center with a retail commerce oriented toward the farmer. Difficult and costly overland transportation between the urban centers and the interior has been an important factor in the slow development of domestic commerce. The existing road network serves only half of the population; coastal tramp vessels are used to some extent to distribute merchandise along coastal areas.

The composition of urban and rural commerce differs widely. Urban centers contain a wide variety of outlets from supermarkets to small specialty shops. Urban stores carry domestic agricultural and manufactured products but consumers of higher income levels generally prefer available imported merchandise. In the rural areas, on the other hand, commercial activity is centered in general stores, groceries, and cantinas. Proprietors often act as wholesale agents, collecting agricultural products and selling dry goods to local consumers.

Only Panamanian nationals may engage in retail trade with the single

exception of U.S. citizens who are residents of Panama. Foreigners may engage in wholesale activities but are subject to restrictions on employment of foreign labor. Retailing generally is done by the importers and wholesalers themselves, although commission representatives are sometimes retained. The Panamanian government directly engages in retail trade through its monopolies in the production, distribution, and sale of salt, in the distribution of alcohol for liquor production, and in the collection of coconuts as well as through extensive purchases and sales of certain agricultural products.

Although there is free determination of prices generally, the government does exercise control over wholesale and retail prices, especially in some foodstuffs. The influence of the Institute for Economic Development (IFE) is particularly effective in regard to prices on corn, rice, coffee, sugar, tomatoes, and coconuts. The IFE occasionally limits profits as a gesture of concern "for the public good." The government also regulates prices of antibiotics, fuels, and products of domestic industries that operate under special incentives legislation.

B. International Trade

In both the consumer and industrial sectors the economy of Panama is strikingly dependent upon foreign trade. Despite attempts to reduce its commodity trade deficit, Panama continues to import at a level more than double its annual export sales. Annual imports have been increasing at a rapid rate as a result of the inability of domestic sources to meet the rising demand for consumer goods, raw materials for the processing industries, and machinery and materials required for economic development. The widening gap between commodity exports and imports is filled in large degree by revenues accruing as a result of Panama Canal operations and, to a lesser extent, from tourism and capital inflows.

1. Imports

Commodity imports in 1965 increased about 11 percent to a value of almost US \$190 million (see Table 29), far outstripping the growth rate of 8 percent in real gross domestic product (GDP). This level of imports was the equivalent of more than 30 percent of GDP. The resurgence of imports in 1965 was the result of renewed business confidence following the anti- U.S. riots in 1964 when imports increased less than 4 percent. Liberal credit policies permitted inventories that were depleted in 1964 to be replenished and the resumption of foreign capital inflows allowed

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Table 29

Panama: Composition of Commodity Imports (f.o.b.), 1960-65

| | (In millions of US \$) | | | | | |
|---|------------------------|-------------|-------------|-------------|-------------|----------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965 a/</u> |
| Food products | 13.3 | 15.1 | 14.6 | 15.9 | 18.3 | 18.6 |
| Beverages and tobacco | 2.8 | 2.8 | 3.8 | 1.5 | 1.4 | 2.2 |
| Crude petroleum | -- | -- | 17.1 | 33.0 | 33.7 | 38.5 |
| Other fuels and lubricants | 10.8 | 11.0 | 10.0 | 4.8 | 1.7 | 1.6 |
| Vegetable and animal fats and oils | 0.2 | 0.4 | 0.5 | 0.4 | 0.5 | 0.6 |
| Chemical products | 11.4 | 13.3 | 13.8 | 15.2 | 16.8 | 18.3 |
| Manufactures | 44.6 | 49.3 | 51.7 | 58.4 | 58.0 | 67.6 |
| Machinery, vehicles and transport materials | 24.1 | 30.3 | 31.8 | 31.3 | 32.1 | 40.4 |
| Industrial and construction equipment | (5.0) | (9.4) | (8.8) | (7.6) | (7.2) | (12.4) |
| Electrical equipment | (6.5) | (7.9) | (8.8) | (7.3) | (7.8) | (9.0) |
| Road equipment and vehicles | (8.5) | (8.3) | (9.0) | (10.8) | (10.6) | (12.0) |

Table 29

Panama: Composition of Commodity Imports (f.o.b.), 1960-65
(continued)

| | (In millions of US \$) | | | | | |
|--|------------------------|-------------|-------------|-------------|-------------|----------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965 a/</u> |
| Other | (4.1) | (4.7) | (5.2) | (5.6) | (6.5) | (7.0) |
| Non-monetary gold | 0.2 | 0.2 | 0.2 | 0.3 | 0.5 | 0.6 |
| Other | 0.3 | 0.3 | 0.1 | 0.1 | 0.2 | 0.6 |
| Total registered imports | 108.6 | 124.0 | 145.2 | 162.8 | 165.4 | 190.6 |
| Adjustment for balance of payments purposes b/ | +0.5 | -0.2 | -0.5 | +0.8 | +4.3 | -2.1 |
| Total Imports | 109.1 | 123.8 | 144.7 | 163.6 | 169.7 | 188.5 |

a. Preliminary.

b. Includes imports of some ships and aircraft, water and electricity from the Canal Zone, and other items. Excludes merchandise under diplomatic franchise.

industrial and development projects to move ahead. The economic recovery in 1965 also permitted a continuation of the trend toward rapidly rising imports of consumer goods already evident prior to the riots.

The promotion of import substitution industries, particularly in the consumer goods field, has long been a government policy in order to develop industry and to reduce import demand. This policy has led to the imposition of protective import quotas and tariffs and to the lowering of import duties on input requirements for established industries and ^{on} capital equipment for new industries. A new effort was made in March 1966 to restrain demand for competitive foreign products by making basic administrative changes in the enforcement of protective regulations. These changes, however, are not likely to relieve significantly pressures for increased imports ^{because} most non-food processing industries have a large import coefficient as do most private and public investment projects. The rate of increase in imports during 1966 reportedly has been higher than that for 1965.

2. Exports

Exports from Panama, consist mainly of primary food products -- bananas, shrimp, sugar, and coffee -- and refined petroleum products (see Table 30). Total exports in 1965 reached a value of approximately US \$90 million or more than twice the value of exports in 1961. Most of this increase was the result of expanded banana exports, sales of which almost

Table 30

Panama: Composition of Commodity Exports (f.o.b.), 1960-65

| | (In millions of US \$ and Volume) | | | | | |
|---------------------------------|-----------------------------------|-------------|-------------|-------------|-------------|----------------|
| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965 a/</u> |
| <u>Bananas</u> | | | | | | |
| Value | 18.2 | 20.1 | 20.1 | 25.1 | 29.1 | 31.5 b/ |
| Volume (millions of stems) | 6.7 | 7.7 | 6.7 | 7.8 | 9.6 | 12.3 |
| Unit price (US \$ per stem) | 2.7 | 2.6 | 3.0 | 3.2 | 3.2 | 2.6 |
| <u>Shrimp</u> | | | | | | |
| Value | 5.0 | 5.8 | 7.9 | 6.2 | 7.4 | 8.3 |
| Volume (millions of kilograms) | 3.8 | 4.3 | 4.6 | 4.3 | 5.6 | 5.9 |
| Unit price (US \$ per kilogram) | 1.3 | 1.3 | 1.7 | 1.4 | 1.3 | 1.4 |
| <u>Sugar</u> | | | | | | |
| Value | 0.4 | 0.8 | 0.5 | 1.6 | 2.5 | 2.6 |
| Volume (millions of kilograms) | 2.5 | 4.7 | 3.3 | 10.0 | 23.0 | 23.5 |
| Unit price (US \$ per kilogram) | 16.0 | 17.0 | 15.0 | 16.0 | 10.8 | 11.0 |

Table 30

Panama: Composition of Commodity Exports (f.o.b.), 1960-65
(continued)

| (In millions of US \$ and Volume) | | | | | |
|---|------|-------|-------|-------|---------|
| | 1960 | 1961 | 1962 | 1963 | 1965 a/ |
| <u>Coffee</u> | | | | | |
| Value | 1.1 | 0.3 | 1.4 | 0.4 | 1.4 |
| Volume (millions of kilograms) | 1.3 | 0.3 | 1.7 | 0.5 | 1.3 |
| Unit price US ¢ per kilogram | 84.6 | 100.0 | 82.4 | 80.0 | 92.3 |
| <u>Petroleum and derivatives c/</u> | | | | | |
| Value | -- | -- | 13.8 | 23.6 | 24.7 |
| Volume (millions of gallons) | -- | -- | 199.8 | 421.7 | 368.7 |
| <u>Other exports</u> | | | | | |
| Value | 3.2 | 3.4 | 4.5 | 3.5 | 4.4 |
| Total Registered exports | 27.9 | 30.4 | 48.2 | 60.4 | 69.7 |
| Adjustments for balance of payments purposes d/ | 11.4 | 11.0 | 11.8 | 12.1 | 14.4 |
| Total Exports | 39.3 | 41.4 | 60.0 | 72.5 | 84.1 |

a. Preliminary.

b. Excludes adjustment for revaluation of exports. Other preliminary sources quote the value of banana exports in 1965 at \$37.3 million.

c. Includes crude oil, kerosene, gasoline, and diesel oil.

d. Includes nonregistered exports to the Canal Zone, some taxes on exports, revaluation adjustments, smuggling of coconut and copra, and other items.

doubled due to new plantings undertaken in Panama, and, to an even greater degree, exports of refined petroleum products. Sales of refined petroleum products were initiated in 1962 and rose to approximately US \$25 million in 1965. Counterpart imports of crude petroleum, however, grew from US \$17 million in 1962 to US \$38 million in 1965. It is estimated that net foreign exchange earnings from sales of petroleum measured only US \$7 million in 1965.

The need to expand and diversify exports is recognized by the Panamanian government but, aside from greater banana production and establishment of a petroleum refinery, little progress has been made. It is hoped that exports of less traditional agricultural products can be increased; for example, the expansion program in the cattle industry eventually may allow addition of new items to the list of exports. Thus far, surpluses in most fields have been minimal, however, largely because domestic demand has absorbed production increments as they occurred.

3. Direction of Trade

Panama's trade is strongly oriented toward the U.S. market with more than 45 percent of its exports being sold to this country. If imports of Venezuelan crude petroleum are excluded, Panama receives more than half of its imports from the United States. (See Tables ³¹ and 32 .) Trade with member countries of the European Common Market has increased in recent years and during 1962-65 accounted for an average of 6 percent of Panamanian exports and over 8 percent of its imports. Trade with Latin American

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Table 31

Panama: Direction of Trade, Imports, Percentage Share
of Principal Suppliers, 1960, 1963-65 a/

| Country | (Percent of Total) | | | |
|-------------------|--------------------|--------------|--------------|--------------|
| | 1960 | 1963 | 1964 | 1965 |
| Panama Canal Zone | <u>9.4</u> | <u>2.6</u> | <u>.8</u> | <u>.8</u> |
| Colon Free Zone | <u>7.9</u> | <u>7.6</u> | <u>8.7</u> | <u>9.8</u> |
| United States | <u>51.4</u> | <u>45.3</u> | <u>43.3</u> | <u>41.8</u> |
| Latin America | <u>3.0</u> | <u>23.3</u> | <u>24.8</u> | <u>23.3</u> |
| Venezuela | -- | 19.2 | 18.5 | 19.6 |
| Rest of world | <u>28.3</u> | <u>21.2</u> | <u>22.5</u> | <u>24.3</u> |
| Common Market | 11.6 | 8.3 | 8.3 | 8.8 |
| Total | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

a. Components may not add to totals due to rounding.

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Table 32

Panama: Direction of Trade, Exports, Percentage Breakdown
by Major Trading Partner, 1960, 1963-65 a/

| | (Percent of Total) | | | |
|--|--------------------|--------------|--------------|--------------|
| Country | 1960 | 1963 | 1964 | 1965 |
| Identifiable exports to Canal Zone | <u>22.6</u> | <u>23.4</u> | <u>17.2</u> | <u>19.0</u> |
| Goods purchased by U.S. agencies (Nonregistered exports) | 22.6 | 14.5 | 12.1 | 12.2 |
| Exports of petroleum products | | 9.0 | 5.1 | 6.7 |
| Identifiable exports to Colon Free Zone | <u>.8</u> | <u>.6</u> | <u>.5</u> | <u>.2</u> |
| United States | <u>47.6</u> | <u>40.7</u> | <u>43.4</u> | <u>45.7</u> |
| Canada | <u>.2</u> | <u>4.8</u> | <u>10.1</u> | <u>8.8</u> |
| Latin America | <u>.2</u> | <u>2.3</u> | <u>3.3</u> | <u>1.6</u> |
| Common Market | <u>.8</u> | <u>6.2</u> | <u>7.4</u> | <u>4.9</u> |
| Rest of World | <u>27.7</u> | <u>21.9</u> | <u>18.1</u> | <u>19.8</u> |
| Total | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

a. Components may not add to totals due to rounding.

countries, on the other hand, continues to be very small representing less than 2 percent of Panamanian exports and 4 percent of its imports in 1965 (excluding purchases of Venezuelan petroleum).

4. CACM

The question of Panama joining the Central American Common Market (CACM) or any other trading area is still under consideration with special attention being paid to the competitiveness or complementarity of Panama with these areas, relative wage-productivity ratios, advantages of new industries possibly resulting from membership, and similar matters. Some concern has been voiced that membership in CACM would affect negatively Panama's profitable relations with the Canal Zone; it has been proposed that action regarding membership be postponed until after completion of treaty talks with the United States. It also has been suggested in some Panamanian circles that a preferential relationship should be sought with the United States as a more profitable alternative to market membership. The Panamanian Chamber of Commerce, on the other hand, has recently proposed the conversion of all of Panama into a free trade zone, arguing that it is more advantageous to become a center of regional trade and finance without affiliation with any one "common market".

Panama already has applied for membership in subsidiary organs of the Organization of Central American States and, pending ratification, will participate in its labor and social security, public health, and tourism

councils. Moreover, the study recently completed by Doctor Ramon Tamames, a Spanish economist commissioned by the Panamanian government to analyze relative advantages attending entry into CACM, strongly recommends application for full membership at the earliest opportunity. It is doubtful that any conclusive action will be taken, however, at least until a similar study by CACM countries is completed.

5. Colon Free Zone

The Colon Free Zone provides approximately 10 percent of Panama's imports making it the third most important supplier (U.S. - first; Venezuelan petroleum - second). Of greater significance, however, is its role as an earner of foreign exchange for Panama. Exports from the Colon Free Zone increased from US \$16 million in 1953 to over US \$133 million in 1964 with Panamanian earnings of foreign exchange from this source growing from US \$1 million to US \$11 million during the same period.

The growth potential of the Free Zone appears to be excellent and its advantages are being vigorously promoted abroad. A sizeable enlargement of its physical plant is being planned to cope with the increasing trade between Latin American and U.S. and European industries. To date, Zone activities have been mainly distributive in nature with relatively large incoming shipments being stored and repackaged into smaller lots for re-export to South American purchasers. It is probable that manufacturing

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and processing will play a more important role in the services offered by Zone facilities in the future.

6. Canal Zone

By far the most important element in Panama's overall external economic relations is its relationship with the Canal Zone. Net earnings on goods and services to the Canal Zone in 1965 totaled US \$90 million, offsetting a substantial portion of the US \$104 million deficit incurred in goods and services transactions with the rest of the world. Since 1961 these deficits have been climbing steadily reaching a cumulative total of US \$482 million for the five year period through 1965. Net goods and services transactions with the Canal Zone during this period, however, offset well over three-fourths of the deficit in trade with the rest of the world, leaving an imbalance of only US \$104 million to be covered by capital movements and decreases in foreign exchange reserves.*

* These figures understate the importance of the Canal Zone as a contributor to Panama's foreign exchange earnings inasmuch as they include only income deriving directly from activities in the Canal Zone. The broader concept employed by the Stanford Research Institute in its 1965 study (SRI Project 5383, "Impact of a Sea-Level Canal on the Economy of Panama", July 1965) includes additional sources of inflow of foreign exchange due to the existence of the Canal but not directly derived from activities within the Zone, e.g., net Canal-derived contributions of the Colon Free Zone, a portion of earnings from foreign visitors, airport income, and diplomatic activity, and various bunker fuel and shipping operations. Employment of this methodology significantly increases estimates of foreign exchange earned due to the Canal; for example, US \$127 million in 1965 as compared with US \$90 million reported in balance of payments data. The SRI study estimates that of total foreign exchange earned by Panama, approximately 70 percent is attributable to Canal and U.S. military activities.

Table 33

Panama: Transactions with the Panama Canal Zone,
1960-1965

(In millions of US \$)

| | <u>1960</u> | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965 a/</u> |
|--|-------------|-------------|-------------|-------------|-------------|----------------|
| <u>Receipts</u> | <u>65.8</u> | <u>74.5</u> | <u>87.4</u> | <u>95.4</u> | <u>90.2</u> | <u>101.0</u> |
| Income earned by Republic residents employed in the Canal Zone | 27.1 | 30.8 | 35.9 | 38.5 | 43.2 | 46.7 |
| Wages and salaries (net) b/ | (24.2) | (27.3) | (32.5) | (35.2) | (40.0) | (43.2) |
| Retirement and disability pay | (2.9) | (3.5) | (3.4) | (3.3) | (3.2) | (3.5) |
| Expenditures in Republic by Canal Zone residents | 36.8 | 41.8 | 47.3 | 48.5 | 40.8 | 47.6 |
| Household | 14.4 | 17.1 | 20.4 | 21.8 | 16.7 | 23.7 |
| U.S. Government agencies | 9.6 | 9.7 | 11.8 | 12.2 | 12.7 | 14.4 |
| Goods | (8.9) | (9.0) | (10.5) | (10.9) | (10.2) | (11.2) |
| Services | (0.7) | (0.7) | (1.3) | (1.3) | (2.5) | (3.2) |
| Private organizations | 12.8 | 15.0 | 15.1 | 14.5 | 11.4 | 9.5 |
| Contractors for Canal Zone projects | (8.4) | (10.4) | (10.7) | (9.7) | (6.3) | (5.1) |
| Other | (4.4) | (4.6) | (4.4) | (4.8) | (5.1) | (4.5) |
| Sales of petroleum products | -- | -- | 2.3 | 6.5 | 4.3 | 4.8 |
| Panama Canal annuity | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| <u>Payments</u> | <u>14.9</u> | <u>15.3</u> | <u>13.7</u> | <u>8.1</u> | <u>4.8</u> | <u>7.6</u> |
| Imports of merchandise | 11.1 | 11.5 | 10.0 | 5.3 | 2.2 | 4.9 |
| Services | 3.8 | 3.8 | 3.7 | 2.8 | 2.6 | 2.7 |
| <u>Net receipts</u> | <u>50.9</u> | <u>59.2</u> | <u>73.7</u> | <u>87.3</u> | <u>85.4</u> | <u>93.4</u> |

a. Preliminary.

b. Salaries earned net of estimated deductions for retirement, insurance, and medical service.

Of total net earnings of US \$90 million from relations with the Canal Zone in 1965, about US \$15 million reflects an export surplus on goods account. Total sales to the Zone are estimated at US \$17.5 million of which \$6 million represent exports of petroleum products and the remainder purchases by U.S. government agencies. Net earnings on services account are estimated at US \$75 million in 1965 of which about \$47 million reflects income earned by Republic residents employed in the Canal Zone and US \$24 million private expenditures in the Republic by Canal Zone residents.

(See Table 33 for a breakdown of transactions with the Canal Zone in detail).

7. Balance of Payments

The imbalance on overall current account of US \$19.5 million in 1965 was financed through a net inflow on capital account of US \$9.5 million and a reduction of US \$10 million in foreign exchange reserves. (See Table 34 .) Total capital received by the public sector increased by some US \$3 million over the 1964 level largely as a result of larger official transfer payments coupled with a decrease in the outflow of short-term capital. Significant improvement occurred in the private sector as well, with capital outflow dropping by US \$6 million from the 1964 figure. In 1964, the net inflow of capital to the public sector had been canceled out by the unusually large outflow of private capital, leaving foreign exchange reserves to take the full brunt of balancing the US \$23 million deficit on current account.

Panama: Balance of Payments Summary, 1960-66

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Table 34

Panama: Balance of Payments Summary, 1960-66
(continued)

| | (In millions of US \$) | | | | | | Estimate a/ 1966 |
|--------------------------------------|------------------------|-------|-------|------|-------|---------|---------------------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 b/ | |
| Capital Account | | | | | | | |
| Private sector | | | | | | | |
| Long-term direct investments | 31.3 | 25.5 | 26.7 | 40.4 | 0.1 | 9.5 | 30.9 |
| Other long-term investments | 16.6 | 17.2 | 14.5 | 4.6 | -14.7 | -8.4 | 7.0 |
| Short-term capital | 17.3 | 36.1 | 21.7 | 7.7 | 3.2 | 2.2 | 4.0 |
| (including net errors and omissions) | -1.8 | 4.2 | 3.3 | 5.4 | 4.7 | 3.0 | 4.0 |
| Public sector | | | | | | | |
| Net loans received | 1.1 | -23.1 | -10.5 | -8.5 | -22.6 | -13.6 | -1.0 |
| Loans received | 14.9 | 8.3 | 12.2 | 35.8 | 14.8 | 17.9 | 23.9 |
| National government | 7.3 | 3.0 | 5.6 | 22.7 | 9.4 | 8.1 | 13.9 |
| Autonomous institutions | 7.8 | 3.6 | 8.2 | 24.0 | 11.8 | 11.2 | 17.9 |
| Loans repayments | - | 3.1 | 5.8 | 18.4 | 5.4 | 6.7 | 8.9 |
| National government | -0.5 | 0.5 | 2.4 | 5.6 | 6.4 | 4.5 | 9.0 |
| Autonomous institutions | - | -0.6 | -2.6 | -1.3 | -2.4 | -3.1 | -4.0 |
| Official transfer payments | -0.5 | -0.6 | -2.5 | -1.1 | -2.1 | -2.6 | -3.2 |
| Other short-term capital | - | - | -0.1 | -0.2 | -0.3 | -0.5 | -0.8 |
| Change in reserves (increase -) | 6.1 | 9.6 | 7.3 | 9.6 | 7.6 | 10.0 | 10.0 |
| | 1.5 | -4.3 | -0.7 | 3.5 | -2.2 | -0.2 | ... |
| | 6.5 | 9.1 | 0.7 | -5.5 | 23.1 | 10.0 | 1.6 |

a. Projections by Alliance for Progress secretariat.

b. Preliminary.

During the 1960-62 period the inflow to the private sector (largely to finance building of the oil refinery) had been the most important source of foreign capital to the Panamanian economy. By 1963 private capital inflow had slowed appreciably and the public sector was the main beneficiary of the record capital receipts for that year. Foreign loans to the national government have since decreased, however, while loan repayments have risen so that in 1965 net capital inflow to the public sector measured US \$8 million as compared with US \$23 million in 1963.

Increases in the inflow of capital to both the public and private sectors are expected during 1966-68 but the deficit on current account is expected to grow steadily as a result of the increasingly large import demand generated by investment programs. Preliminary reports indicate that imports during the first six months of 1966 increased 18 percent over the corresponding period in 1965. The International Monetary Fund already has voiced concern regarding import pressures on the balance of payments in the face of the current lack of dynamism in development of the export trade.

The success with which the Panamanian government pursues its stated objectives of increasing and diversifying production for export as well as for import substitution will be an important determinant of Panama's ability to generate the foreign exchange earnings necessary to future economic growth. Increased sales of services (e.g. Colon Free Zone operations, tourism) also represent an important potential source of foreign exchange.

Thus far, the tendency has been to rely far too heavily upon Canal-derived foreign exchange earnings to sustain imports. Even were there no changes contemplated in the location and operation of the Canal, net foreign exchange earnings from other sources would have to be increased to maintain the present rate of economic growth. In the face of current discussions regarding modernization and/or moving of the Canal, it becomes imperative that Panamanian economic planning undertake the solution not only of problems attending the interim dislocations involved in the change but also that of offsetting the long-term reduction in foreign exchange receipts which will occur in varying degrees under all of the plans being contemplated. Expansion of domestic production of goods and services is essential to achieving the higher degree of import selectivity and export activity necessary to insure an adequate level of foreign exchange earning power.

PANAMA

Figure 1. General Map of the Republic of Panama

Figure 2. Urban and Rural Population by Province, 1960

Figure 3. Geographic Regions

Figure 4. Cultivated Land in Relation to Area of the District, 1961

Figure 5. Areas of Lumber Exploitation and Location of Sawmills, 1961

Figure 6. Electrification, 1964















Figure 7. Cottage Industries According to Class, 1960

Figure 8. Highways, Roads, and Railroads, 1963

Figure 1: General Map of the Republic of Panama

Graphic Scale

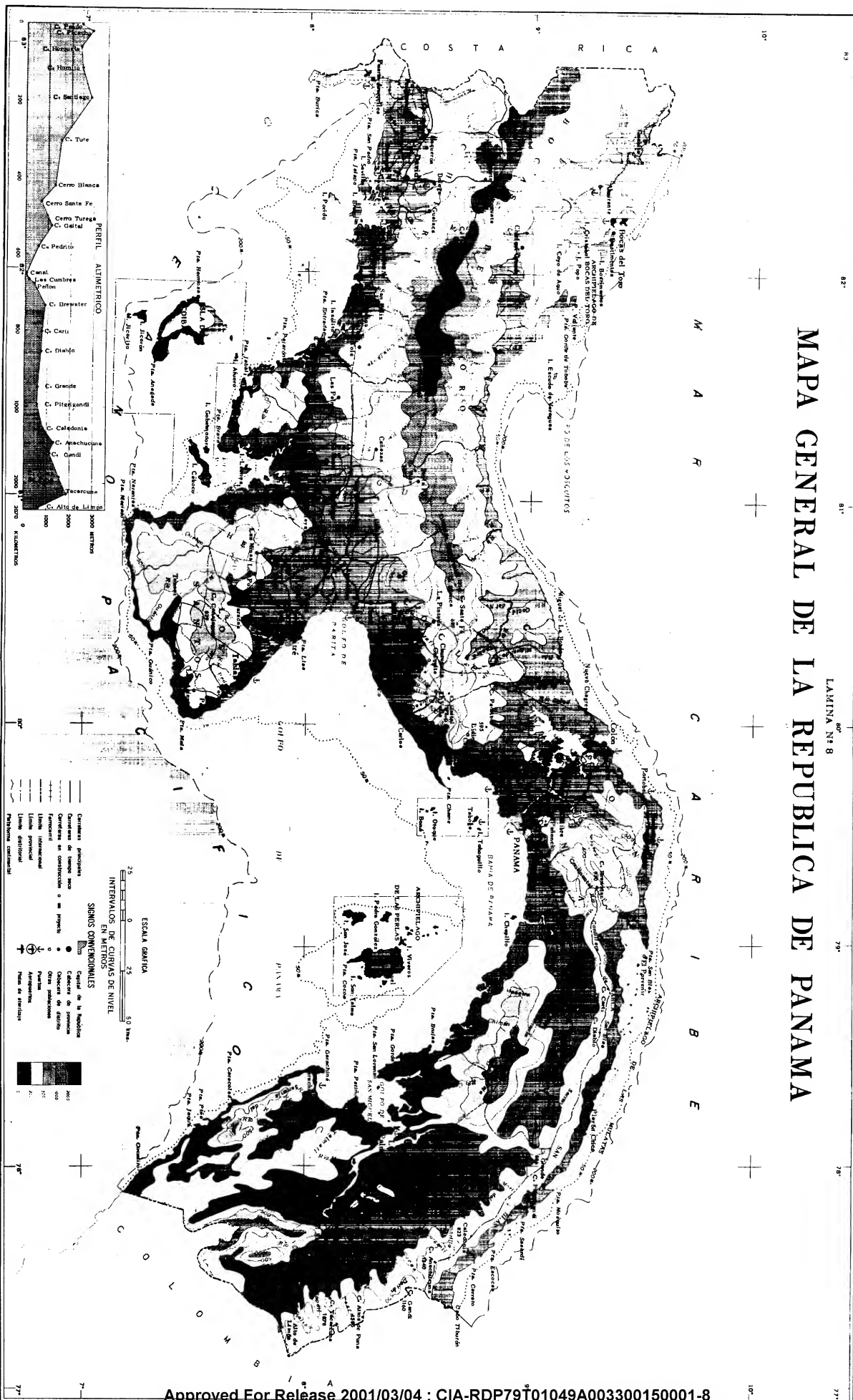
Intervals of Contour Lines, in meters
Conventional Signs

| | | | |
|---|---|---|-------------------------|
|  | Principal highways |  | Capital of the Republic |
|  | Dry weather highways |  | Provincial capital |
|  | Highways under construction or proposed |  | District capital |
|  | Railroad |  | Other towns |
|  | International border |  | Ports |
|  | Provincial border |  | Airports |
|  | District border |  | Landing fields |

MAPA GENERAL DE LA REPUBLICA DE PANAMA

LAMINA N° 8

M A R C A R I B E



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Figure 2: Urban and Rural Population, by Province, 1960

Urban population



Rural population



Total population of the
Republic - 1,075,541

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POBLACION URBANA Y RURAL, POR PROVINCIA : AÑO 1960

LAMINA Nº 21

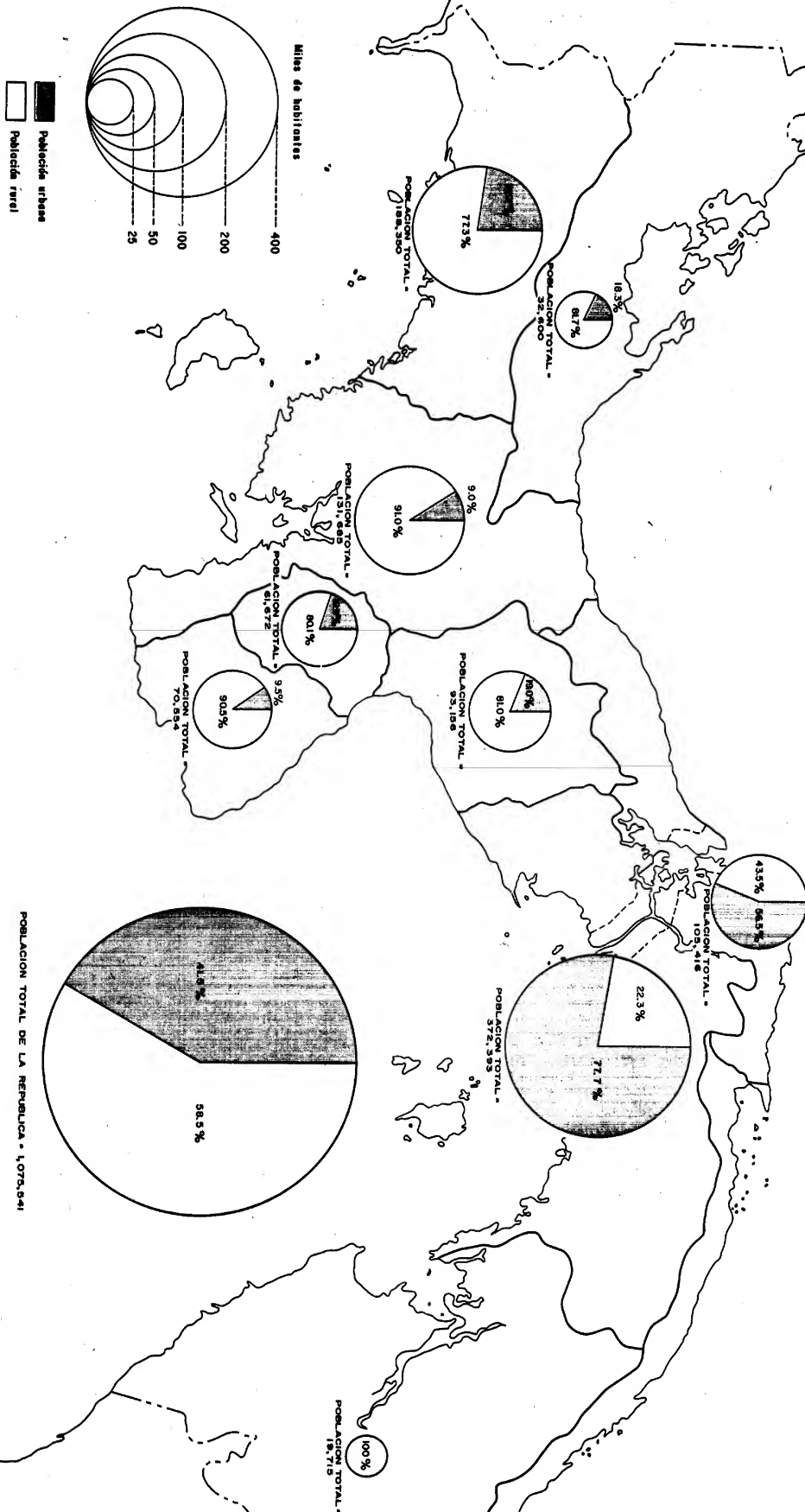
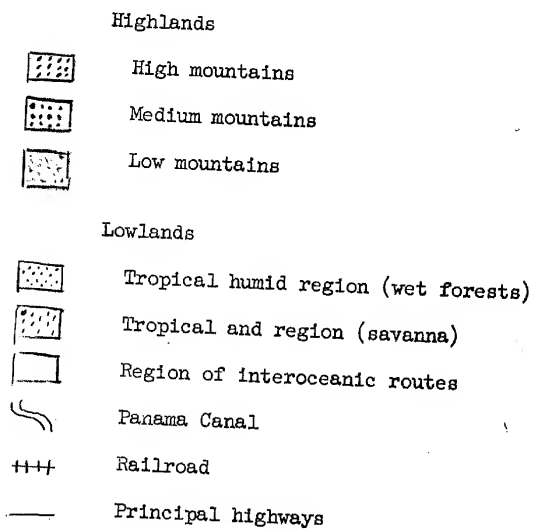
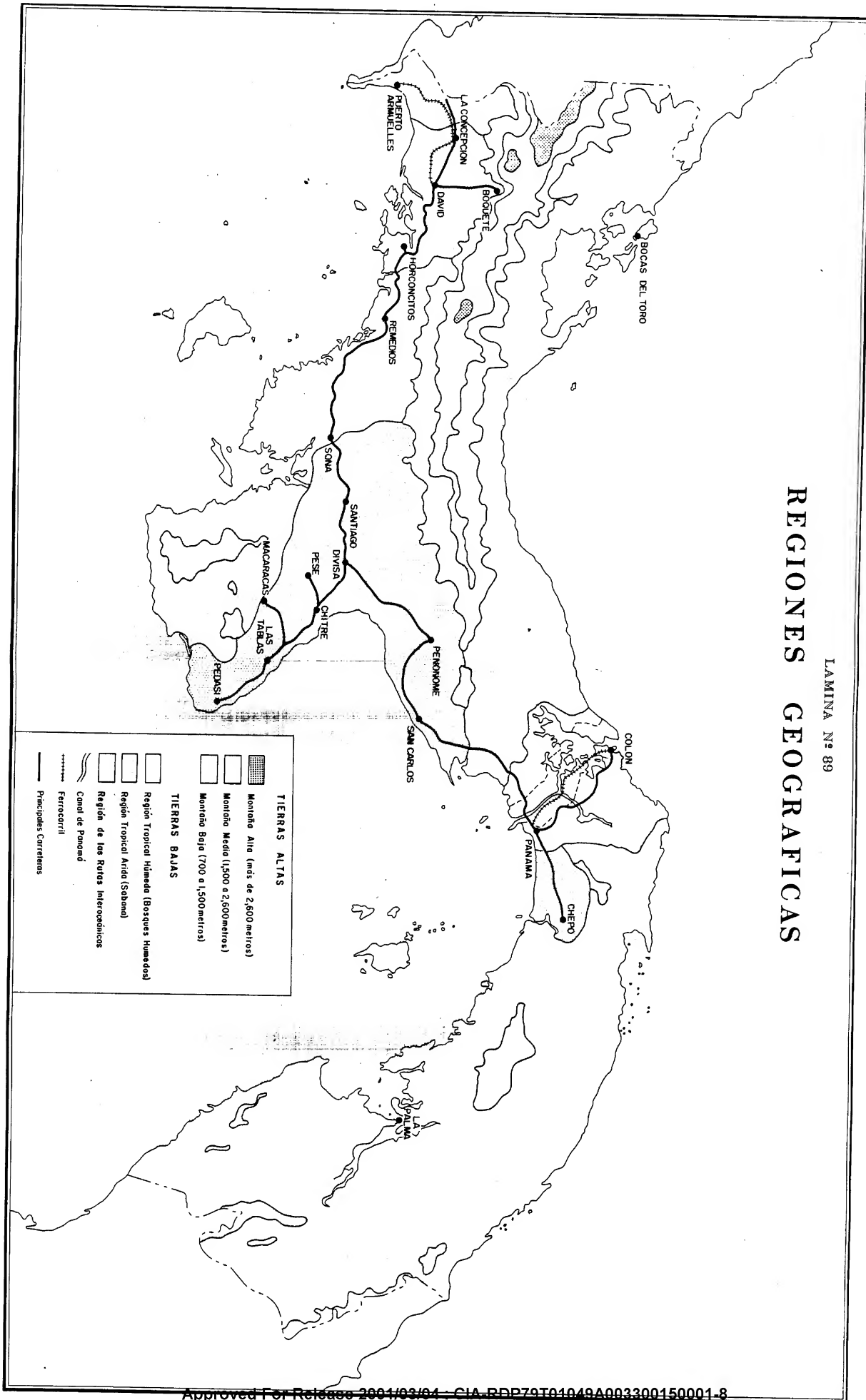


Figure 3: Geographic Regions



REGIONES GEOGRAFICAS LAMINA N° 89



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Figure 4: Cultivated Land in Relation to
Area of the District, 1961

Distribution by type of cultivation,
by province, 1960



Temporary



Permanent



Seeded pasture

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TIERRA CULTIVADA EN RELACION CON EL AREA DEL DISTRITO:
AÑO 1961

LAMINA N° 30

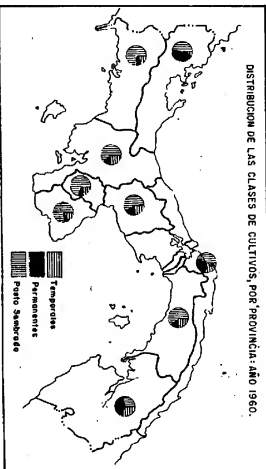
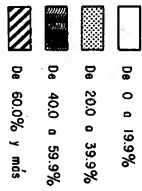
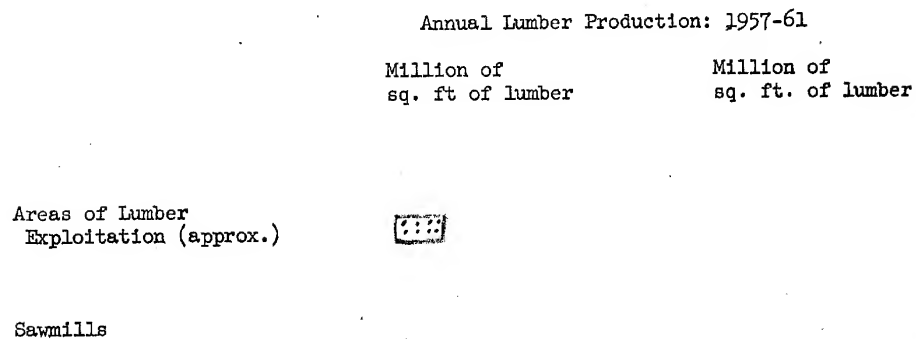


Figure 5: Areas of Lumber Exploitation
and Location of Sawmills, 1961



AREAS DE EXPLOTACION MADERERA Y LOCALIZACION DE ASERRADEROS : AÑO 1961

LAMINA N° 67

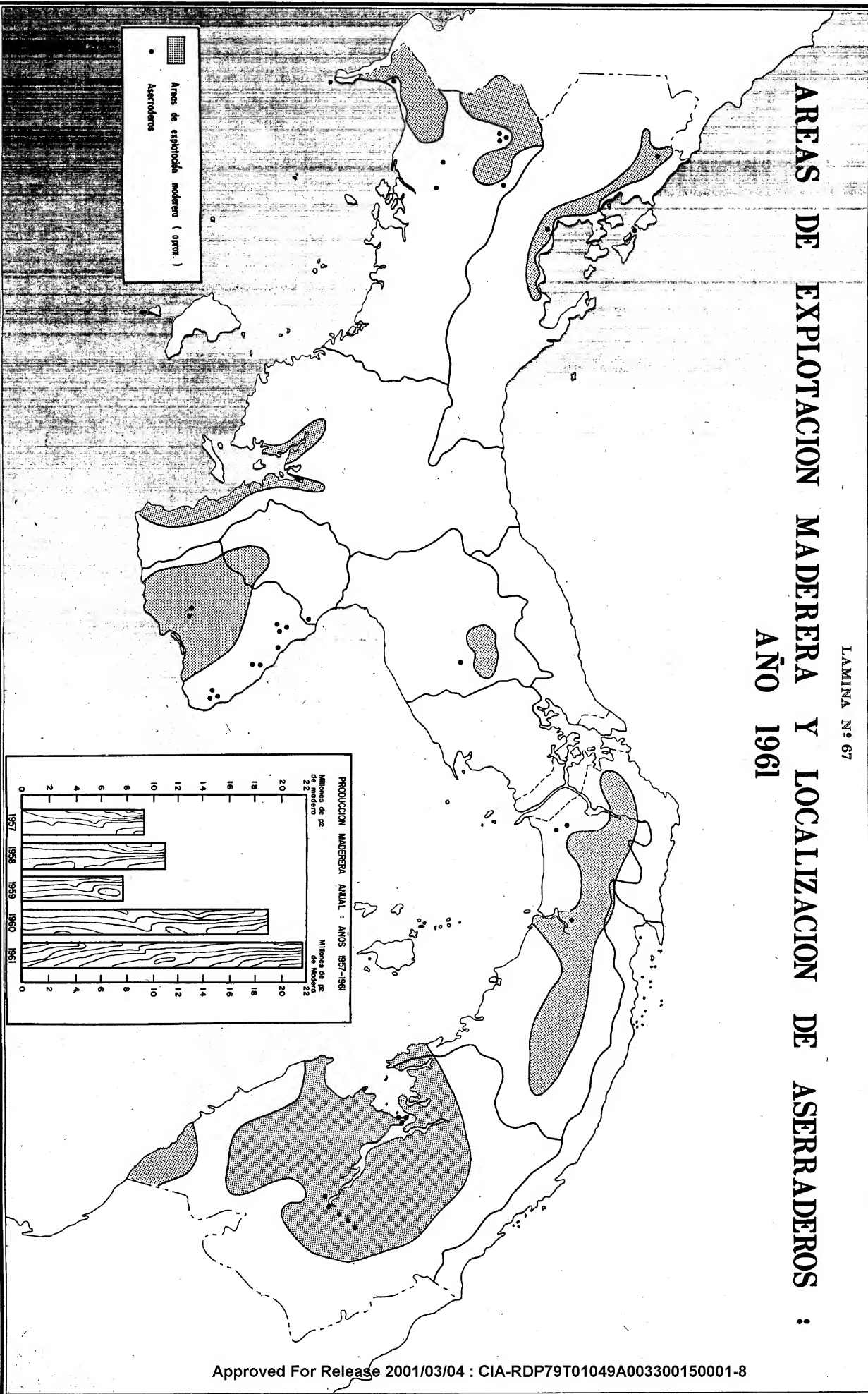



Figure 6: Electrification, 1964

- Electrified Towns
 - With its own thermal generation
- ⊙ Without its own thermal generation
- ★ With its own hydraulic generation
- Federal system
-  Private system

ELECTRIFICACION : AÑO 1964

LAMINA N° 68

- POBLACIONES ELECTRIFICADAS**
- Con generación térmica propia
 - Sin generación térmica propia
 - * Con generación hidráulica propia
 - Red nacional
 - Red privado

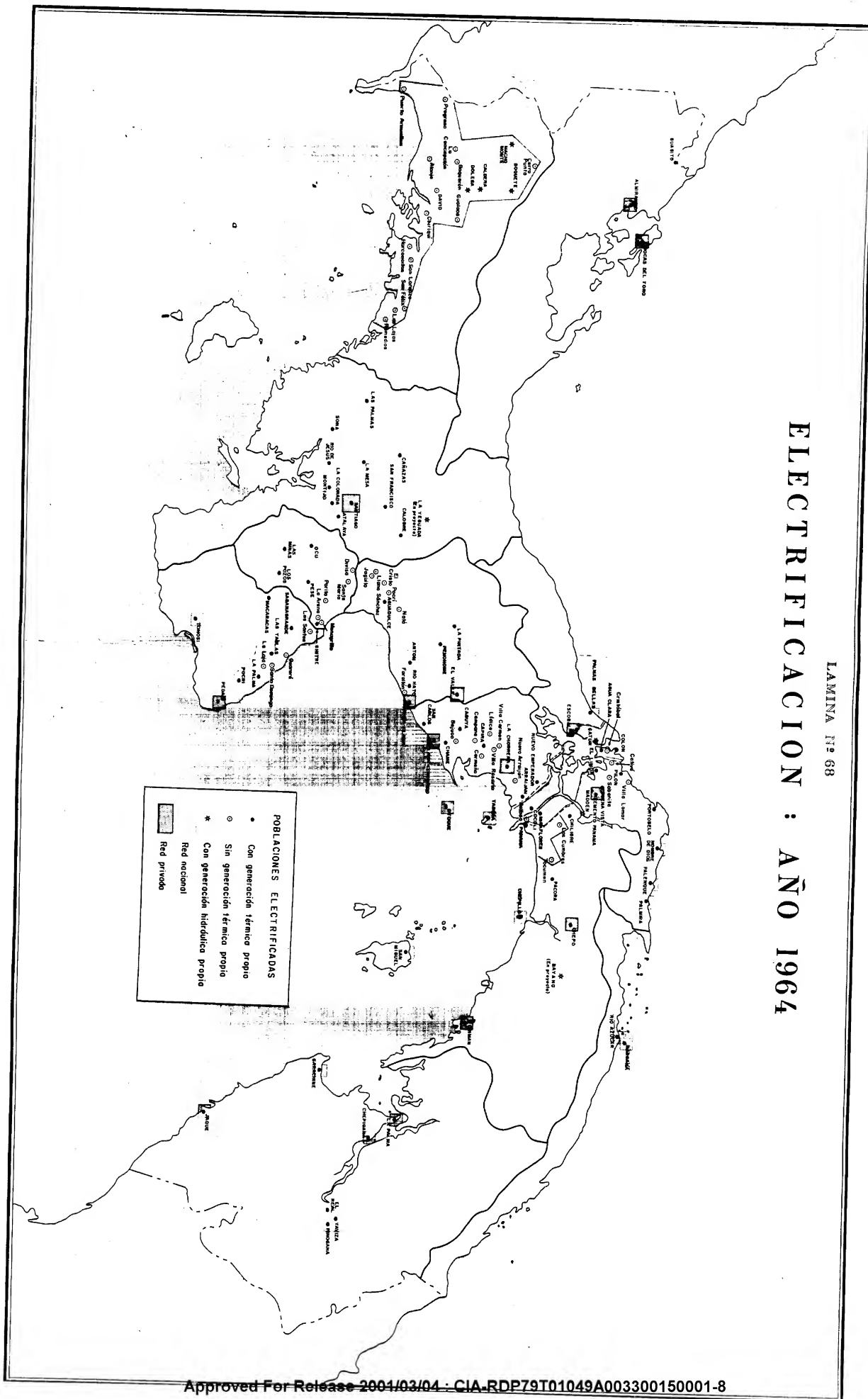


Figure 7: Cottage Industries According to Class, 1960

Number of industries

Fabrication of textiles
and articles of clothing

Various food industries
and beverages

Fabrication of wood
products

Others (coal, soap, oil,
starch, etc.)

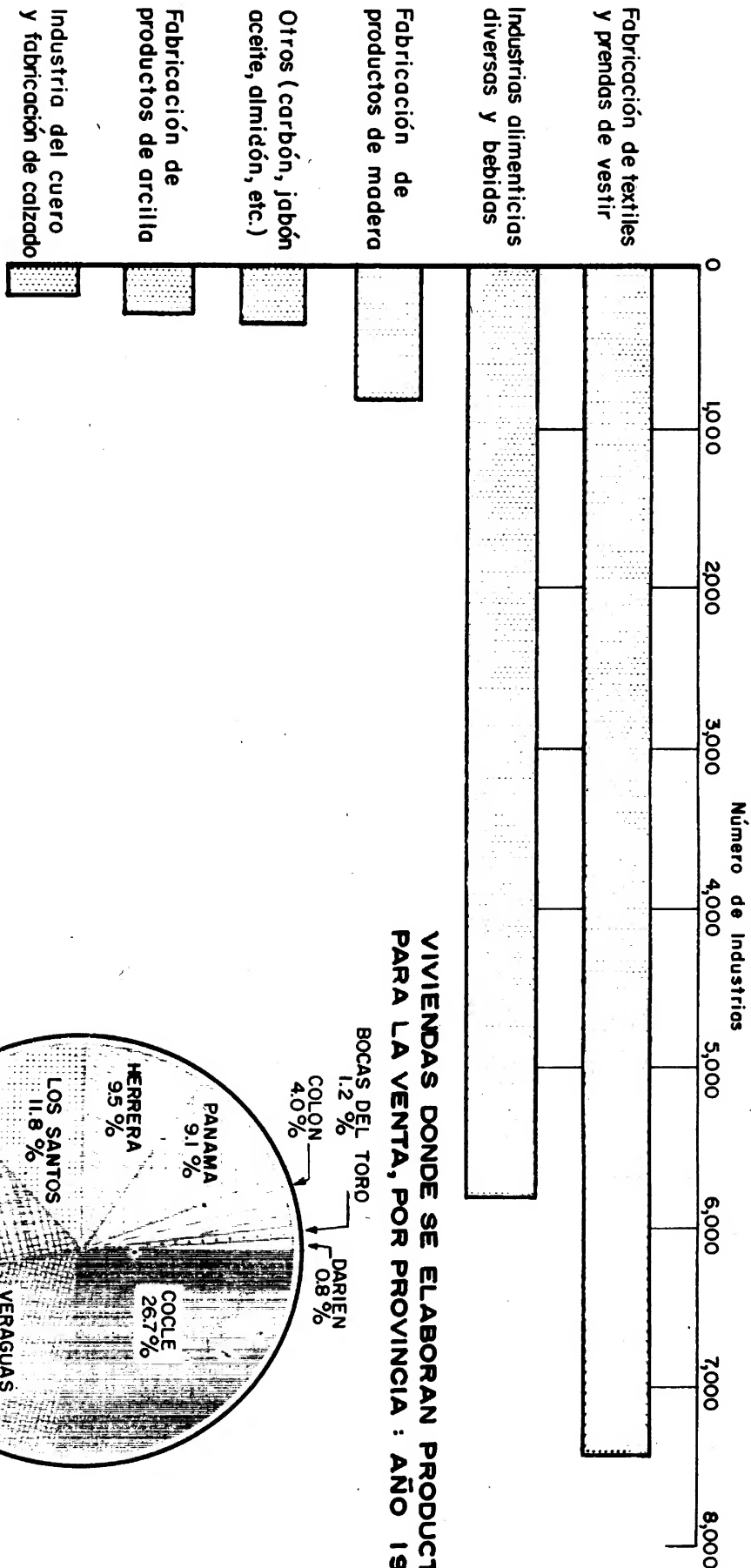
Fabrication of clay
products

Leather industry and
fabrication of footwear

Percent of dwellings where products
are made for sale, by province,
1960

LAMINA N° 66

INDUSTRIAS DOMESTICAS SEGUN CLASE : AÑO 1960



VIVIENDAS DONDE SE ELABORAN PRODUCTOS PARA LA VENTA, POR PROVINCIA : AÑO 1960

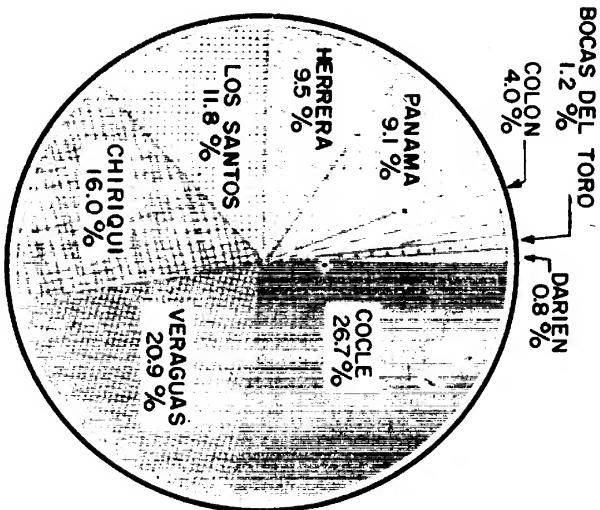


Figure 8: Highways, Roads and Railroads, 1963

- ⊙ Capital of the Republic
- ◉ Provincial capital
- District capital
- Concrete
- Asphalt
- Gravel
- Dirt
- Proposed
- +++ Railroads

CARRETERAS, CAMINOS Y FERROCARRILES : AÑO 1963

LAMINA N° 71

